Austria	Sch 20	Indonesia	Rp 3100	Philippines	Pes. 20
Bahrain	Din 0.650	Israel	IS 3.50	Portugal	Esc 100
Belgium	BFr.45	Italy	L 1600	S. Arabia	Rls 6.00
Canada	C$1.00	Japan	Y600	Singapore	S$ 4.10
Cyprus	C£0.75	Jordan	Fils 500	Spain	Pta 125
Denmark	DKr.9.00	Kuwait	Fils 500	Sri Lanka	Rup 30
Egypt	E£1.50	Lebanon	£L 50.00	Sweden	SKr 8.00
Finland	Fmk 7.00	Luxembourg	LFr 45	Switzerland	SFr 2.20
France	FFr. 6.50	Malaysia	Rin 4.25	Taiwan	NT $85
Germany	DM 2.20	Mexico	Pes. 300	Tunisia	Din 0.800
Greece	Dr 80	Morocco	Dh 8.00	Turkey	L 350
Hong Kong	HK$ 12	Netherlands	Fl 3.00	U.A.E.	Dh 6.50
India	Rup. 15	Norway	Nkr 7.00	U.S.A.	$1.00

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,161 — Monday February 16 1987 — D 8523 B

Thaw in relations between Bonn and Moscow, Page 4

World news — Business summary

Amal lifts siege of refugee camp

Thousands of starving refugees streamed from south Lebanon's Rashidiyeh camp when the Shi'ite Amal militia movement partly lifted its siege for the first time in 17 weeks.

The situation in Bourj al-Barajneh camp near Beirut remained bleak despite the arrival of supplies of flour and milk powder after initial attempts to alleviate famine conditions failed.

In Beirut, Druze leader Walid Jumblatt asked the Shi'ite Moslem Hizbollah to release British church envoy Terry Waite. Page 3

Detainee released

A former aide to Lebanese president Amin Gemayel, Jean Obeid, seized by unidentified gunmen in Moslem west Beirut last week, has been released and delivered to Syrian headquarters, official sources said.

Tehran raid

Iraq said its aircraft raided Tehran and eight other towns and cities, including the holy city of Qom, to make Iran's leaders understand "that insistence on war means more destruction for Iran."

Sri Lanka deaths

At least 34 people were killed in Sri Lanka as security forces continued their offensive against Tamil guerrillas in the northern and eastern provinces. Among the dead were 16 rebels who died when explosives they were fixing to a water tanker exploded.

Running for right

General Hendrik van den Bergh, who headed South Africa's Bureau of State Security in the 1970s, plans to run for parliament as a member of the right-wing Conservative Party, which opposes all moves to end apartheid.

Tunnel divides UK

Forty-four per cent of Britons think the Channel Tunnel should be built, according to an opinion poll, but 40 per cent are opposed and 16 per cent undecided.

Terrorist murders

Italian police launched a nationwide search for up to eight members of a terrorist Red Brigades unit who shot dead two policemen in Rome before robbing a postal van of L1.2bn ($880,000).

Attacker killed

A man who threw a hand grenade at Hadi Khamenei, younger brother of Iranian President Ali Khamenei, was killed by revolutionary guards, security officials said. One person was killed and Khamenei was injured by the grenade.

Talks blackout

A joint Jordanian-Palestinian committee imposed a news blackout on talks in Amman on providing welfare aid to 1.3 million Palestinians living under Israeli occupation.

Arab unrest

Seven Israeli soldiers were wounded when Arab youths stoned an army bus near a refugee camp north of Jerusalem. There were also stone-throwing incidents in Gaza and the West Bank city of Nablus, where a tourist on a bus was cut by glass from a windscreen.

Killer cyclone

An Indian Ocean cyclone which killed seven people on the French island of Réunion before moving on has reversed direction and is again threatening the island.

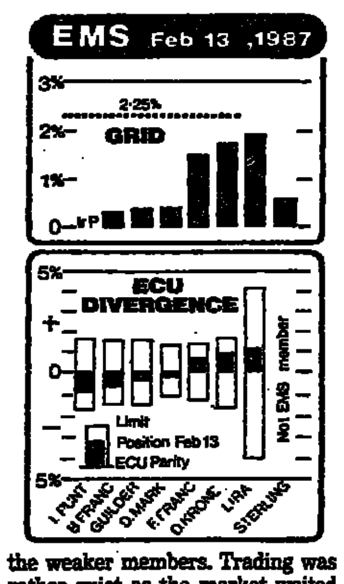
Money in muck

Treasure-hunters near Tokyo braved a sewage canal when they saw hundreds of thousands of yen floating to the surface. Police in Chiba City retrieved notes worth $12,900.

Siemens wins order for US exchange

SIEMENS, West German electronics company, has overcome opposition from the US telecommunications authorities to win its first order for a large public exchange switch from one of the seven American regional telephone operating companies, Page 18

EUROPEAN Monetary System: The Irish punt remained the weakest currency within the EMS last week. However it was comfortably inside its divergence limit because renewed dollar strength limited the attraction of the D-Mark and removed any downward pressure on the weaker members. Trading was rather quiet as the market waited to see if there would be a meeting of G-5 finance ministers. Speculation about a dollar support package encouraged traders to cover short positions which accounted for the dollar's improvement.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

CIBA-GEIGY, Swiss pharmaceutical group, protested strongly against the use of its shares in a covered warrant bond launched by ICN Pharmaceuticals of California. Page 19

TAX AMNESTY was approved by Argentina's legislature. The Ministry of Finances hopes it will bring in an extra Australs 1bn ($750m) to Government coffers this year, Page 3

FRENCH and West German nuclear plant manufacturing industries have decided to cooperate for the first time on a contract to design a 600 MW nuclear reactor for Indonesia, Page 18

ALUMINIUM prices have risen to their highest level for 21 months amid reports of shorts of Metall in stockholders' hands, Page 5

SAPPI, South African pulp and paper maker, benefited strongly last year from a combination of increased domestic sales, higher export prices and favourable exchange rate shifts, Page 22

TEXTILES: Fresh legislation to introduce quotas on US imports is to be set before Congress within weeks, according to industry sources. Page 4

SANDOZ, Swiss pharmaceuticals group, has questioned the size of a FFr 257m ($43m) damages claim announced by the French Government last week to meet the company's responsibility for the Rhine pollution after a fire in a chemicals store last November, Page 4

TRIPLE FIVE, owners of West Edmonton Mall, the world's biggest shopping centre, has been forced by investor resistance to shelve plans for a C$480m (US$358m) private placement of long-term mortgages secured by the mall. Page 22

SCHLUMBERGER, US oilfield services and electronics company, lost $2.02bn or $7.02 a share after tax last year following a profit of $351m or $1.17 in 1985. Page 19

Avalanche of law suits may follow Wall St trading scandals

BY ANATOLE KALETSKY IN NEW YORK

LEADING US investment banks could face an avalanche of costly lawsuits because of criminal insider trading scandals exposed last week.

Even for the largest of Wall Street houses, the magnitude of civil penalties potentially involved could threaten capital adequacy and jeopardise plans for future expansion.

Entanglement of the US securities industry in a series of crippling lawsuits could be among the most important long-term consequences of the insider trading scandal according to some institutional investors and corporate legal experts.

The firms which appear most immediately threatened are Kidder Peabody and Goldman Sachs. Kidder Peabody's former head of mergers and acquisitions, Mr Martin Siegel, admitted in court on Friday that he had been selling inside information. The head of arbitrage operations at Goldman Sachs, Mr Robert Freeman, was charged with insider trading on Thursday.

Spokesmen for both Kidder Peabody and Goldman Sachs have repeatedly denied any wrongdoing on the part of their firms.

Goldman Sachs has been sued already by FMC, the Chicago-based chemicals company which it had advised in a recapitalisation plan. But the case against Goldman, which had previously been named only as a co-defendant along with Mr Ivan Boesky, has been tremendously strengthened by last week's court revelations, according to a lawyer with close knowledge of the proceedings.

In the FMC suit, Goldman Sachs was originally implicated only because of the confession of Mr David Brown, a junior investment officer, that he had sold information to Mr Boesky. The bank was expected to disclaim responsibility for Mr Brown's actions on the grounds that he was a junior employee – an "unpredicable disloyal servant," according to one lawyer –acting purely on his own initiative. However, if last week's charges are upheld against Mr Freeman, an extremely senior executive, the bank would be much more vulnerable. One doctrine which would be used against it is "negligent supervision." This holds an empolyer liable for failing to detect a series of repeated unlawful actions by its employees, particularly those at a senior level.

While FMC is suing Goldman Sachs specifically only for repayment of $17.5m in investment banking fees, it is also asking for $225m in damages jointly from Mr Boesky, Goldman Sachs and others. FMC has estimated this to be the excess cost of its recapitalisation plan because of the ramping up of its share price through insider trading. Suits like this, along with the possibility of punitive damages of up to three times the losses actually sustained, pose the real threat to investment banks caught up in the imbroglio.

Once all the criminal insider trading investigations are over, there will be a flood of other cases, one lawyer predicted. The main restraints on such cases at present are the procedural rules for Grand Jury investigations under which all relevant information is confidential until an indictment is actually read out in court.

However, once this restraint is lifted suits could be brought not only by firms such as FMC, which had paid excessive prices in financings and takeover bids, but also by individual and institutional investors in the companies concerned.

A whole batch of class actions has already been brought against Mr Boesky. But the size of the compensation fund created by Mr Boesky in his agreement with the securities and exchange commission has been very limited – a mere $50m. This has probably deterred some companies and lawyers seeking much higher damages. Now, however, much larger sums could be sought from firms with huge capitalsations on Wall Street.

The awesome scale that corporate legal liabilities can sometimes assume in the US – especially for firms in unpopular industries perceived by the public as having "deep pockets" – was illustrated last week when the Texas Appeal Court upheld a $9.1bn judgment against Texaco, in a case involving an alleged breach of contract and no charges of criminal activity.

Handcuffs and tears on Wall Street, Page 16

EEC farm price deal likely to spark fresh trade dispute with US

BY TIM DICKSON IN BRUSSELS

A MAJOR new transatlantic trade dispute looked probable last night after the European Commission finally agreed its long-awaited package of farm price proposals at a meeting in Brussels.

In spite of fierce opposition from some of the 17 members of the Commission, the EEC's executive body decided to press ahead with controversial plans for a hefty new oils and fats tax and face the expected outcry from the American soyabean industry.

One US diplomat in Brussels commented that if the measure is approved by the EEC's Council of Ministers, "it will make the earlier problem over lost maize sales to the Community look like a pre-season warm up."

The farm package accord – held up unexpectedly on two previous occasions – came right at the end of an all day Commission meeting called primarily to discuss much more far-reaching plans for an overhaul of EEC finances. Designed to put member states' contributions on a more permanent basis and place the financial burden more fairly on the wealthier countries, the tightly guarded ideas drawn up by Mr Jacques Delors, the Commission President and Mr Henning Christopherson, the Budget Commissioner, were accepted by the Commission and will be formally presented to representatives of the European Parliament in Strasbourg today.

While these are of crucial long-term significance to the functioning of the Community, the plan for an oils and fats tax could have more immediate repercussions. Strictly speaking called a "stabiliser mechanism," the proposal is thought to involve a tax maximum of Ecu 330 ($375) per tonne on all imported and domestic vegetable and marine oil including that made from sunflower seed, rapeseed, olives and, crucially, soyabeans.

Mr Jacques Delors

The tax, which would be applied to crushers of the seed rather than producers, could raise as much as Ecu 2bn to finance the increasingly expensive Community support for the oils and fats regime. It is seen by Mr Frans Andriessen, the Agriculture Commissioner, as being of crucial importance to the reform of this sector.

Critics even within the Commission, however, argue that the tax will be passed on to consumers – possibly implying, for example, a sharp rise in the cost of margarines – and that it will be considered highly provocative by the US so soon after the settlement over grain.

Latest available figures (for 1985) show that US soyabean exports to the EEC totalled $1.6bn, although they have been higher in the past. American officials say that, while the tax will not directly hit EEC imports, the proceeds will be used by the EEC to give further support to their own producers. Moreover as the last major agricultural product which can be imported into the Community free of charge, the issue is considered in Washington to be of highly symbolic significance.

Fierce US lobbying can be expected to start soon with a view to blocking the proposal in the Council of Ministers. Britain, West Germany, the Netherlands and Denmark are all known to oppose the idea so should constitute a "blocking minority" under the Community's voting rules.

Discussion of the other prickly question to have held up the Commission's farm price package – agri-monetary reform – was also concluded which will allow the Commission to formally unveil its proposals today.

The long-term financing debate, precipitated by perennial EEC budget crises and the need to reform the method of contributions introduced to accommodate Britain's budget rebate at the Fontainebleu summit in 1984, will start in earnest this week when Mr Delors unveils his proposals in detail to the full session of the European Parliament on Wednesday.

US and Japan to meet on chips, Page 4

Moscow frees leading dissident

By Lionel Barber in Washington

A PROMINENT Soviet Jewish dissident, Mr Iosif Begun, has been freed from prison in the Soviet Union, Mr Georgi Arbatov, a Soviet central committee member, said yesterday.

Mr Arbatov, one of a group of Soviet Communist Party members touring the US to promote Mr Mikhail Gorbachev's reform programme, said of Mr Begun on US television: "He is free now, I can tell you. His case has been resolved."

There was no independent confirmation from Moscow last night that Mr Begun had been freed. His wife said she had not received any news.

Mr Begun's case has become important as a test for Mr Gorbachev's attempt to improve the Soviet record on human rights and to release some dissident intellectuals as part of his campaign for "glasnost" or more openess in Soviet society.

Mr Begun was not included last week on a list of 140 Soviet dissidents freed by decree as part of Mr Gorbachev's efforts to improve his country's record on human rights.

A Soviet spokesman singled out Mr Begun, a writer on the plight of Soviet Jews, saying he was not given a pardon because he refused to write an appeal for clemency or sign a promise that he would not engage in subversive activities in future.

When Mr Begun was not released last week, crowds gathered in central Moscow's pedestrian nall on Thursday to protest. They were dispersed by security police and several Western reporters were attacked,

Continued on Page 18

Pravda wants 'more relaxed' foreign reporting, Page 4, Editorial comment, Page 16

Airbus to press ahead with plan for new airliners

BY MICHAEL DONNE IN LONDON AND WILLIAM HALL IN NEW YORK

AIRBUS Industrie, the European airliner manufacturing group, intends to press ahead with development of its two new airliners, the medium range A-330 and the long range A-340, despite US criticism of unfair subsidies.

The US Government will not take immediate retaliatory trade action against Airbus following the European decisions but has commissioned a study of European sales and financial practices to determine if they violate international trade laws.

A top level economic policy committee of the US cabinet decided on Friday that US complaints that the Airbus is subsidised by European governments should be handled within the framework of the General Agreement on Tariffs and Trade (Gatt) and rejected a call for immediate unilateral retaliatory action.

Mr Franz-Josef Strauss, chairman of the supervisory board of Airbus said at the roll out of the 150-seat A-320 in Toulouse on Saturday that the group hoped to be able to launch the new jets "without additional trade conflicts. But I must warn everybody not to be mistaken. We will not allow political agitation to distract us from the *successful path we have chosen.*"

The four governments in the Airbus group – the UK, France, West Germany and Spain – clearly support this attitude.

The four ministers responsible for the Airbus programme, in Toulouse to discuss the new projects, reaffirmed their support for the "efforts being made by Airbus Industrie and its partners to extend their product range again."

In a communiqué following their meeting, the ministers "noted with satisfaction that these aircraft (the A-330 and A-340) matched well the requirements of the air transport market, and showed significant economic advantages compared with competing products." They also took note of the "positive reaction of airlines to Airbus Industrie's proposals."

Although the communique fell short of committing any of the governments to funding the new ventures, there was little doubt in the minds of Airbus Industrie officials over the weekend that such support would be forthcoming to enable formal approval for the new projects by the end of March.

Mr Jacques Chirac, the French Prime Minister, speaking at the A-320 roll-out left little doubt about the French Government's intentions when he commented that it was necessary for Airbus to launch a new line of aircraft "to ensure the future of the consortium. This is particularly true when faced with aggressive international competition."

Mr Geoffrey Pattie, UK Minister of Trade and Industry, commented that the UK Government was still considering the detailed application for up to £750m ($1.13m) of launch aid for the new Airbus ventures from British Aerospace and would reach a decision in the near future.

The prevailing view among the Airbus partners is that some UK Government cash will be forthcoming although it may not be all that British Aerospace had sought.

French relaunch plan for rival to Eurofighter, Page 2

European state telecom groups may collaborate on data networks

BY DAVID THOMAS IN LONDON

EUROPEAN telecommunications authorities are studying a plan to collaborate in providing managed data networks on an international basis for large companies.

The project, which might require the setting up of a joint venture company, is an ambitious idea, which would pitch the authorities into headlong competition with some of the world's largest computer and computer services companies.

Managed data networks are private lines used by large companies for their data traffic. They are used mainly for in-house business, but are increasingly being used by companies to communicate with customers and suppliers.

The UK Department of Trade and Industry at first opposed British participation in studies on the subject, because it believed the idea could create a pan-European cartel in value added services, an area that it wants to open up to greater competition.

Large computer and computer services companies, such as IBM, Electronic Data Systems, a subsidiary of General Electric of the US, are competing to provide these services in Europe and elsewhere.

However, the DTI has now reluctantly accepted that Britain, through British Telecom, should participate, because of the interest shown by other European countries.

The pan-European approach has been discussed for about two years by the Conference of European Postal and Telecommunications administrations, which represents the telecommunications authorities of Western Europe.

The Conference has now commissioned the first full-scale study, to begin next month. It should be completed by October.

The study is being funded by the telecommunications authorities in Austria, Belgium, Denmark, France, Finland, West Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the UK.

The study will look at two key conditions, which the project would probably have to satisfy:

- "One-stop shopping": a multinational company would be able to order all the requirements for its private data network throughout Europe from the telecommunications authority servicing its European headquarters.
- "One-stop billing": similarly, a multinational would be able to pay for everything associated with its private network at the one point.

To make these changes possible, some participants believe a joint-venture company or new international body would have to be set up by the European telecommunications authorities to manage the operation. This would have its own staff in each country, which customers could call on to sort out any problems.

Participants stress that the project is still at an early stage. The study may throw up insuperable problems, such as pricing arrangements or technical barriers in making the networks of the different European countries fully compatible.

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French relaunch plan for rival to Eurofighter

BY GEORGE GRAHAM IN PARIS

FRANCE has relaunched its project for a new fighter aircraft and hopes to bring other European partners, including West Germany, into the programme.

The new fighter, based on the Rafale prototype built by the Dassault group, is a rival to the Eurofighter project which groups British, Italian and West German constructors, but France hopes the lower cost of the Rafale-based programme could lure away the West Germans. Belgium and Spain, which are not involved in the Eurofighter, could also join.

Mr Jacques Chirac, France's Prime Minister, said at the weekend that the fighter would be flying by 1996, when the French air force will need to replace its fighters.

Speaking on a visit to Toulouse, centre of the French aerospace industry, he said the cost of the French project was half the "very optimistic evaluation" of the joint European fighter programme. He hoped that other European countries would therefore put their weight behind the French design, "including those countries one would not think of immediately."

Mr Charles Hernu, the former defence minister, also said he hoped the Rafale project would allow France to overturn the Eurofighter alliances.

The French consortium brings Avions Marcel Dassault-Breguet Aviation together with the electronics group Thomson and the state-controlled engine producer Snecma. The Rafale prototype uses engines from General Electric of the US.

Mr Chirac and Mr Andre Giraud, the Defence Minister, were at pains to make clear that the creation of the consortium did not mean a snub to Mr Serge Dassault, chairman of Avions Marcel Dassault and son of its founder.

They said that Dassault, which has in the past preferred to take sole charge of the development of new aircraft, was clearly still leader of the project and denied persistent reports of a personal quarrel between Mr Giraud and Mr Dassault.

Dragonair set for fresh clash with Cathay Pacific

BY DAVID DODWELL IN HONG KONG

DRAGON AIRLINES, the recently founded Hong Kong aviation group, intends to make a fresh bid for rights to operate to destinations served by Cathay Pacific, putting it on course for new clashes with Cathay, the territory's main carrier.

Mr Steve Miller, Dragonair's managing director, confirmed that applications have been made to operate services to Peking and Shanghai in China, and to Kuala Lumpur, Penang, Johore Bharu, and Kota Kinabalu in Malaysia.

Dragonair applied unsuccessfully last year for the right to operate these services. Those to Peking and Shanghai were fiercely contested by Cathay, which had fought over several years for the right to serve these cities and was determined not to see its interests jeopardised.

China will set up six independent airline firms by 1988 to operate international and domestic services under a major reform of aviation, the official New China News Agency quoted Hu Yizhou, director-general of the State-owned airline company, CAAC, as saying.

Dragonair has since won the right to fly to 14 lesser cities in China, but none of these offer the promise of profits on the scale of services to Peking and Shanghai.

After almost two years in existence, Dragonair has only recently won the right to operate any scheduled services. These are to three destinations in Thailand. It has otherwise been forced to operate charter services around the region, many on an ad hoc basis.

Punjab chief hits back as priests fail to topple him

By John Elliott in New Delhi

Militant Sikh priests in the troubled northern Indian state of Punjab failed at the weekend to bring down the ruling state government, headed by Mr Surjit Singh Barnala, and install a regime that would take tougher opposition line with the central Indian Government of Mr Rajiv Gandhi.

Only a handful of 47 state legislature members of Mr Barnala's Akali Dal Party followed the edict issued by high priests to resign and pledge their loyalty to a new united Akali Dal party, formed by the priests and other dissidents.

Mr Barnala yesterday took action against those who had followed the priests. He dismissed Mr Harbhajan Singh Sandhu, Agriculture Minister, who defected at the end of last week and expelled 11 other local leaders from his party. He has asked the state assembly speaker to disqualify Mr Sandhu, in line with Indian legislation on political defections.

Efforts by the priests and others to remove Mr Barnala, who is supported by Mr Gandhi's Congress I Party, will continue. They reflect the sharp personal rivalries and deep splits among Sikh politicians in the Punjab which have bedevilled Mr Gandhi's attempts to bring peace to the state.

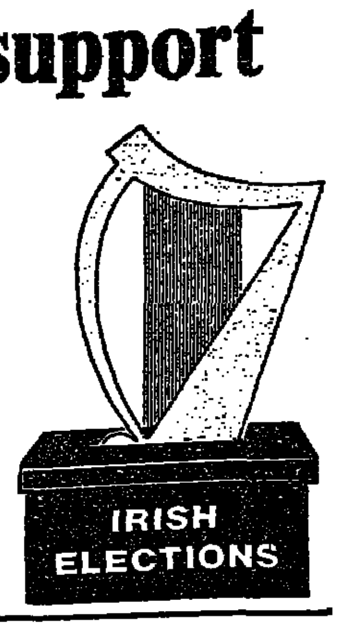
The head priests, based in their religion's sacred Golden Temple in the Punjab city of Amritsar, excommunicated Mr Barnala last week for not following their instruction to dissolve his political party. At the weekend they excommunicated the leader of another smaller Akali Dal faction and asked Sikhs to "boycott" the state assembly members who had not followed their instructions.

But moderate Sikhs throughout India are criticising the action of the priests who, they say, have exceeded their authority.

Mr Gandhi is consulting national opposition party leaders on the crisis in New Delhi today. He wants a strong government in the Punjab with enough authority to end the extremists' campaign of violence which has claimed about 700 lives

New Irish party attracts growing support

Progressive Democrats may gain 15% of votes in tomorrow's election, Hugh Carnegy reports



"THE COUNTRY needs real change . . . give us the balance of power. We're ready . . ." ran the Progressive Democrat's newspaper advertisement yesterday alongside a picture of a jacketless Mr Desmond O'Malley, the party leader, his sleeves rolled up in business-like fashion.

The advert nicely captured the appeal of Ireland's newest party: It is fresh, anxious to get on with dealing with the country's immense economic problems and, above all, it is scornful of the inability of the two leading parties, Fine Gael and Fianna Fail, to do so in the past.

In barely more than a year, Mr O'Malley has capitalised on disillusion with the old parties to make the Progressive Democrats a crucial factor in tomorrow's general election. If the opinion polls are right in suggesting that it has secured around 15 per cent support, it may come close to holding the key to who forms the next government.

That it has reached such a point in such a short time has surprised even Mr O'Malley and the small group around him who launched the Progressive Democrats with an I£5,000 (£4,800) bank overdraft at the end of December 1985.

At that time it was regarded mainly as a vehicle for dissenting members of Fianna Fail who objected to the leadership of Mr Charles Haughey, with whom Mr O'Malley, as a senior Fianna Fail figure, had long had profound differences. Within months, however, the new party had attracted thousands of supporters, old and young, from both Fianna Fail and Fine Gael.

The Progressive Democrats call for a radical cut in the size of the state to reinvigorate the debt-depressed economy. At the same time, by the standards of Roman Catholic-dominated Irish society, the party stands for liberal social policies. On Northern Ireland, it supports the Anglo-Irish Agreement. Crucially, it seeks to break down Fianna Fail/Fine Gael dominance which is still based largely on divisions dating back to the Civil War of the 1920s.

His new party tends to be characterised by commentators and opponents as right-wing, at least in the economic sphere. Mr O'Malley, a horse racing fan who has an impatient, almost irritable political style, dislikes this label.

Thirty held in Karachi clashes

By Mohammed Aftab in Islamabad

THIRTY PEOPLE were arrested yesterday after clashes with police as Karachi, Pakistan's biggest city and business centre, experienced a general strike. Police teargassed and baton charged crowds to stop them from erecting barricades and pelting the police with rocks. Fifteen people were injured in clashes throughout the city.

The "jam the wheel" strike was called by an action committee supporting the disbanded Karachi Metropolitan Council — the city council. The Government disbanded the council on Thursday after its mayor, Mr Abdul Sattar Afghani and 99 city fathers were roughed up by the police.

The mayor and the councilmen had lead a procession to press for their demand again to collect motor vehicles tax. The Government of the Province of Sind, in which Karachi is located, has recently been collecting the tax, which the council had used for its road maintenance work.

Mr Afghani and 99 councilmen were arrested on Thursday, but 19 of them were later freed on bail. The mayor is still in jail.

Three-quarters of businesses remained shut yesterday. Government and private buses and taxis mostly stayed off the streets.

The police used army armoured cars to patrol areas most affected by the strike call.

Worrall confirms his stand as Independent

BY JIM JONES IN JOHANNESBURG

DR DENNIS WORRALL, South Africa's former ambassador in London, confirmed at the weekend that he was abandoning President P. W. Botha's National Party to stand as an independent candidate in the country's white election on May 6.

He has not chosen a constituency but is believed to favour one in Natal where he can hitch his campaign to the KwaNatal Indaba.

The Indaba's proposals for multi-racial power-sharing in Natal enjoy wide support in the province but have been rejected by the Government on the grounds that they do give an adequate guarantee of minority group rights.

Translated from Bothaese, that means rejection on the grounds that power would not remain unequivocally in white hands.

At a Press conference in Johannesburg on Saturday, Dr Worrall, once a National Party MP and a long-standing party member, said he did not oppose the country's ruling party.

Rather, he said, he was concerned with restoring direction and purpose to South Africans and that he would occupy middle ground between the NP and the Progressive Federal Party, the official white opposition.

He dismissed party politics as counter-productive at present and said he would campaign for a total scrapping of "the remnants of apartheid," starting the process of giving political rights to blacks.

He said it was up to whites to give the Government a mandate for reform which "speaks to the international community and restores to South Africa a sense of direction."

Opinion polls last year indicated that about 60 per cent of whites favoured official talks with the African National Congress on the country's future.

Dow Chemicals has sold its wholly-owned South African pharmaceuticals subsidiary, Mer-National, for an undisclosed amount. Mer-National is one of South Africa's principal drug companies and has an annual turnover of about R150m (£47.5m).

Syndol, its leading brand, is South Africa's largest-selling analgesic. Dow first invested in South Africa five years ago, when it bought Mer-National. It has sold its interest to Twins Pharmaceutical Holdings, a subsidiary of Premier Group, which in turn is controlled by Anglo American, South Africa's largest mining and industrial conglomerate.

Twins will continue to use Dow's trade marks and will have access to the American parent's research. The divestment has been accompanied by guarantees that none of Mer-National's 125 employees be made redundant for at least a year.

Singapore accuses Asian Wall St Journal of caprice

SINGAPORE, which has limited sales of the Asian Wall Street Journal, has accused the newspaper of "capriciously" deciding what readers receive, Reuter reports from Singapore.

In a letter to the American Society of Newspaper Editors, Mr James Fu, press secretary to Mr Lee Kuan Yew, the Prime Minister, said the limit was not to muzzle the newspaper but an attempt to put right "malicious representations."

The Journal was ordered to reduce its sales in Singapore from 5,000 copies a day to 400 from last Monday for refusing to print a Government reply to an article on Singapore's secondary stock market.

In a letter to Mr Lee, dated February 11 and released in Singapore at the weekend, the society said it was dismayed by the action against the Journal.

In reply, Fu said Singapore should not be denied its "right of reply to false accusations and erroneous facts published against us.

"It is the Journal which is capriciously deciding what information its readers, including our citizens, can and cannot receive."

IMF 'in deal with Egypt'

An International Monetary Fund team is expected to return to Cairo shortly with an agreement to grant Egypt a standby credit facility, IMF sources said yesterday, Reuter reports from Cairo.

The delegation left Cairo last Friday after nearly a month of negotiations which diplomats had expected would result in a letter of intent on an economic reform package to be undertaken by Egypt.

The sources said no agreement had been signed but hinted that an accord in principle had been reached for providing Egypt with credits needed to give the economy balance of payments relief.

FINANCIAL TIMES

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Covert campaign for democracy 'led to Irangate'

BY LIONEL BARBER IN WASHINGTON

THE IRAN arms scandal had its roots in an undercover White House operation called Project Democracy, set up four years ago to fight Communism and promote democracy outside the US, it was reported yesterday.

In one of the most detailed accounts of the scandal's origins, the New York Times said Project Democracy was the secret side of a well-publicised initiative that started life when President Reagan addressed the British parliament in June 1982.

In the speech, Mr Reagan spoke of cultivating the "fragile flower of democracy" and of a worldwide effort to "foster the infrastructure of democracy, the system of free press, unions, political parties, universities which allows a people to choose their own way to develop their own culture . . ."

But about a year later, Mr Robert McFarlane, then Mr Reagan's National Security Adviser, appointed an obscure marine, Lt Col Oliver North, to head the programme. It suddenly grew into a parallel foreign policy apparatus—complete with its own communications systems, leased ships, offshore bank accounts and corporations.

The disclosures appear based on evidence being gathered by the Tower Commission, a three-man panel led by the former Texas senator, John Tower, which is investigating at Mr Reagan's request the workings of the National Security Council.

The commission last week requested a one-week extension of its deadline to February 26 for completing its report after the discovery of new material.

John Tower: more time

Project Democracy, through its National Endowment For Democracy, openly granted Government money to foreign book publishers, trade unions and other institutions. But the covert side raised money privately for the US-backed Contras fighting the Marxist Sandinista Government in Nicaragua.

This week, the scandal is assured of further momentum when Congress questions Mr Robert Gates, nominated to succeed Mr William Casey as head of the CIA. Despite the President's hopes and the White House's hints that the American public is becoming bored with the scandal, the steady stream of disclosures is fanning the controversy.

Jumblatt in plea over Waite

By Richard Johns

MR WALID JUMBLATT, the Lebanese Druze leader, yesterday appealed to the Shi'ite extremist Hizbollah—Party of God—movement to release Mr Terry Waite, the Archbishop of Canterbury's personal envoy, who disappeared in Beirut on January 20.

The call followed a meeting between Mr John Gray, British Ambassador to the Lebanon, and the deeply embarrassed Druze mountain leader whose militia, the Progressive Socialist Party, was responsible for the Anglican emissary's safety on his mission to obtain the freedom of Western hostages.

In London, however, the Foreign Office denied reports that there had been diplomatic contacts with the Syrian Government about Mr Waite.

Mr Jumblat's appeal was confirmation that the amorphous pro-Iranian movement Hizbollah was responsible for Mr Waite's disappearance. It is linked to Islamic Jihad (holy war), which claimed responsibility for the kidnapped men Mr Waite was trying to rescue.

Last night Sir Geoffrey Howe, the Foreign Secretary, was due to meet President Amin Gemayel of Lebanon, who arrived yesterday for a four-day visit

In Beirut Mr Jean Obeid, a former aide of Mr Gemayel's who had close links with Syria, was yesterday freed after being abducted by unidentified gunmen four days previously.

Amal lifts siege of refugee camp

BY NORA BOUSTANY IN BEIRUT

THE SHIA Amal militia partially lifted a siege around the Palestinian camp of Rashidiyeh in South Lebanon and thousands of starving refugees rifted northward over the weekend after United Nations emergency supplies finally entered the Bourj al-Barajneh settlement in Beirut.

At day break Saturday, Amal allowed relief trucks loaded with milk, flour and fruits into the Bourj al-Barajneh refugee camp, besieged by its militiamen for 15 weeks.

On the same day, Lebanese Red Cross ambulances evacuated some 138 people, including 13 wounded Palestinians from the camp of Rashidiyeh near Tyre. Amal announced that its blockade of Rashidiyeh, imposed several months ago to prevent guerrillas from becoming militarily active outside the camp, would be lifted for five hours each day to allow them to stock up on food and medical supplies.

Many refugees who took the opportunity to stream out with their few belongings vowed to never return. In Beirut, the UN Relief and Works Agency succeeded after earlier attempts to alleviate severe famine conditions had failed.

Reuter adds: Amal has apparently responded to mounting international pressure to end the Palestinian-Shia feuding in which about 800 people have been killed since September 30.

The loosening of the siege followed Amal's re-occupation of positions at the southern village of Maghdousheh, located on a strategic hilltop dominating the country's coastal road and seized by Palestinians in a frontal assault last November.

Mrs Khadija Hassan, 35, filled her shopping basket with fresh vegetables and fruit. "I have been yearning to get out of the camp (Rashidiyeh), but armed Palestinians would not allow us to leave," she said.

UN officials say 10,000 Palestinians are registered as refugees in Rashidiyeh, but unofficial estimates put the figure at more than twice that number.

● The Lebanese pound continued its rapid fall against the dollar on Saturday, sharpening widespread concern over the country's economic crisis. It closed at 114.00-118.00 to the dollar, compared to Friday's close of 105.00-115.00.

Top officials of the Palestine Liberation Organisation arrived in Jordan at the weekend for talks on aid to Arabs living under Israeli occupation, amid pressure on King Hussein to end his year-old breach with Mr Yassir Arafat, the PLO chairman, Andrew Gowers reports from Amman. The PLO delegation is the most senior to have visited the Jordanian capital since the King ordered the closure of its offices last year after breaking off talks with Mr Yassir Arafat, the organisation's chairman. It is led by Mr Khalil al-Wazir, otherwise known as Abu Jihad, deputy military commander, and Mr Hanni al-Hassan, Mr Arafat's chief political adviser. Coming after a meeting between the King and Mr Arafat at the Islamic summit in Kuwait last month, the visit has fuelled speculation over a possible rapprochement between the two sides, considered vital for the resumption of the stalled Middle East peace process.

US concession to Israel on defence work

BY OUR JERUSALEM CORRESPONDENT

ISRAEL SAID yesterday it had been informed by the US that it was to get preferential status on tendering for military contracts, similar to that enjoyed by Nato countries.

The disclosure came on the eve of a 10-day official visit to the US by Mr Yitzhak Shamir, Prime Minister.

It will put Israel on a par with other non-Nato allies such as Australia and Japan. Unofficial estimates yesterday were that the Israeli defence industry could in consequence receive contracts worth an additional \$200m to \$300m (£130m to £196m) from the Pentagon, mostly in research and development.

Israel has long pressed for special treatment from the US for access to lucrative Pentagon contracts and for Nato-equivalent status for the financing of military purchases.

Israel said a decision in principle to grant it such status was conveyed in recent letters from Mr George Shultz, US Secretary of State, and Mr Casper Weinberger, Defence Secretary, to Mr Shamir and Mr Shimon Peres, the Israeli Foreign Minister.

But the details of the arrangement, which is likely to raise many questions from Nato countries, are a long way from settlement. The subject is certain to be raised while Mr Shamir is in Washington.

● Israel's inflation rose 2.1 per cent last month, the Central Bureau of Statistics said yesterday, Judith Maltz reports from Jerusalem. Although higher than December's figure of 1.5 per cent the month's increase was lower than forecast.

Norway to ask for N-inspection

By Andrew Whitley in Jerusalem

NORWAY is to ask to inspect Israeli nuclear facilities to determine whether Norwegian heavy water delivered during the 1960s is being used for military purposes.

The Norwegian demand, made under the terms of a 1959 government to government agreement, is likely to cause . embarrassment to Israe and could strain the traditionally close relationship

Despite regular official denials, Israel is widely believed to have secretly developed a sophisticated nuclear weapons building capacity. This was based initially on above-board French and Norwegian assistance with what was said at the time to be a research programme into the peaceful uses of nuclear energy.

Yesterday's unexpected move by Norway stems directly from last October's disclosures by Mr Mordechai Vanunu—the dissident Israeli nuclear technician kidnapped abroad by Israeli agents and brought back to stand trial—that the Jewish state had been producing nuclear weapons for two decades.

The Norwegian Government was said by one foreign diplomat to have been "very annoyed" over the Vanunu revelations. A formal request that Israel accept an inspection of its Dimona nuclear reactor by the International Atomic Energy Agency, the IAEA, is expected

Argentina pins fiscal hope on tax amnesty

BY TIM COONE IN BUENOS AIRES

A TAX amnesty was approved by Argentina's parliament at the end of last week, which the Ministry of Finances hopes will bring in an extra Australs 1bn (£490m) to the Government this year—equivalent to an extra month's tax income.

According to Finance Ministry officials the extra income is essential if the Government is to keep its budget within its target of 2.5 per cent of GDP for 1987, as was agreed with the IMF recently to obtain approval for a \$1.35bn (£889m) standby loan.

The amnesty will enable individuals and companies that have evaded taxes to "come in from the cold" and pay a modest levy of between 2 and 10 per cent on hitherto undeclared assets and earnings. In exchange they will be absolved of all legal action by the tax authorities for their past wrongdoings and, in effect, will become law-abiding citizens.

The period for which earnings and assets are eligible for the amnesty runs from the beginning of the military government in March 1976 to the end of December 1985. Government officials who during that period may have used their positions to make illicit gains at the public's expense are excluded from the amnesty.

The amnesty is a complementary measure to the lifting of bank secrecy last year; the latter will enable the tax authorities to act much more effectively in tracing and prosecuting tax evaders. About 3 per cent of the extra income created by the amnesty is to go to strengthen the tax authorities' capabilities.

The new law has been widely criticised, however, from two standpoints. On the one hand, those few honest citizens who pay personal property or income taxation object to their far more numerous neighbours, who pay little or nothing at all, being given such a windfall break. Tax authority figures show that a mere 29,000 Argentinians out of 1.6m potential tax creditors pay 84 per cent of the Government's total revenue from personal taxation.

On the other hand those who had hoped the amnesty would enable substantial sums of foreign currency deposited outside the country to be repatriated and to strengthen the local capital market, have been disappointed. Mechanisms which would have facilitated the transfer of these funds from abroad have been specifically excluded from the law.

Peruvian students plan big protest over mass arrests

BY BARBARA DURR IN LIMA

PERU has begun releasing some of thet 800 detainees arrested in a controversial operation against terrorism last Friday.

Although universities here are traditionally and constitutionally considered out of bounds for law-enforcement authorities, about 4,000 police entered three Lima universities in search of rebels.

The operation left one unidentified man dead and several wounded, including three police. Pistols and explosives, including dynamite and electronic detonators, were found. Police said the arms cahes and literature and other paraphernalia, such as wigs and masks, belonged to Peru's two major rebel groups, the Maoist Shining Path and pro-Cuban Tupac Amaru Revolutionary Movement.

By Saturday, police had released 274 students, but 90 detainees were being charged with terrorism. The remainder were being investigated.

President Alan Garcia justified the operation by saying entry into the universities was done in the presence of judges. "We are not woging a dirty war, with disappeared and deaths by accident, as other regimes have been accustomed to do," he said.

However, the rectors of the three universities, San Marcos, Engineering, and La Cantuta, a teacher-training school, have protested that they were legally entitled to be notified of such an operation. Mr Ignacio Lopez Soria, rector of the National Engineering University, called the operation a first step towards fascism.

Central American leaders meet over peace effort

FOUR Central American presidents met yesterday to discuss a new regional peace proposal that diplomats say calls for a truce between US-backed Nicaraguan Contra rebels and the country's Sandinista Government, Reuter reports from San Jose.

Nicaraguan President Daniel Ortega has not been invited to join Presidents Oscar Arias of Costa Rica, Jose Azcona Hoyo of Honduras and Jose Napoleon Duarte of El Salvador—all US allies—and Guatemalan leader Vinicio Cerezo, who professes neutrality.

The initiative by President Arias focuses on solutions for civil strife in Nicaragua, which the three pro-US countries criticise as the major source of regional instability.

Costa Rica and Honduras have refused to talk to Nicaragua until it withdraws an International Court case accusing them of helping anti-Sandinista rebels.

Western diplomats say Nicaragua was also excluded to isolate it diplomaticaly and to form a common stand to present to the leftist Sandinista government. US officials seem pleased by the exclusion.

"It loks bad if they're all there but one," said one US official.

Reagan faces fresh Congress battle over textile import quotas

BY PETER MONTAGNON, TRADE EDITOR, IN WASHINGTON

FRESH legislation to introduce quotas on US textile imports is to be set before Congress within weeks, according to industry representatives and congressional specialists in Washington.

The proposals, being drafted by supporters of the industry on Capitol Hill, have not been unveiled publicly, but it is clear they will be controversial, sparking bitter opposition from the Reagan Administration.

Last year President Reagan vetoed similar legislation and senior Administration officials have been adamant they want to fend off trade legislation in specific sectors in the 100th Congress that convened last month.

However, pressure from the beleaguered textile industry is unremitting and the proposals are likely to prove a key test of the Administration's ability to curb protectionist elements in Congress.

Mr Dewey Trogdon, president of the American Textile Manufacturers' Institute, noting that textile imports grew 19 per cent last year while the domestic market expanded by only 1 per cent, says: "Only legislation can prevent a takeover of the domestic textile and apparel market by foreign producers

The legislative proposal is expected to be a global textile quota, bringing added worries to the EEC and Canada whose sales to the US were not covered by last year's abortive legislation. But in other respects it is likely to be couched in mild language.

It will provide for imports to grow at 1 per cent a year in line with the total market from a base of 1986 when imports of textiles and clothing set a record of 12.7bn sq yards. Also foreign sellers would be compensated with lower tariffs.

This would allow the measure's promoters to argue that it is not unduly protectionist. Given the strength of the textile lobby, that could generate enough congressional support to override a presidential veto.

However, Mr Clayton Yeutter, the US Trade Representative, said in an interview: "There is no way we will agree to import levels that are squeezed to that degree."

Textile import quotas run counter to the Administration's policy of concentrating on opening new markets abroad rather than closing domestic markets in response to US trade problems.

Moscow takes chill off relations with Bonn

BY PETER BRUCE IN BONN

BONN AND Moscow have begun a rapid repair of the icy, hostile, period in their relations which immediately preceded Mr Helmut Kohl's re-election as West German Chancellor last month.

At an official level at least, Moscow stopped talking to Bonn and cancelled a number of planned visits, after Mr Kohl compared the public relations skills of Mr Mikhail Gorbachev, the Soviet leader, with those of Josef Goebels the Nazi propaganda chief, in a magazine interview last October.

In the past few days, however, in a flurry of new-found warmth that appears to follow a highly conciliatory speech by Mr Hans Dietrich Genscher, the West German Foreign Minister, in Davos on February 1, Soviet officials have lowered their barriers.

Mr Yuli Kvitzinski, Moscow's Ambassador to Bonn, told a press conference here late last week that he was convinced that the West Germans would "with courage and goodwill" begin to move relations with the Soviet Union forward again. A range of technical agreements reached

Genscher: historic chance

before the Kohl gaffe now needed, the ambassador said, "to be given life."

Mr Kvitzinski's remarks, made as the Soviet embassy published a German version of Mr Gorbachev's important speech on democracy to the Soviet Central Committee last month, are probably the most positive indication yet that the Soviet side has put the Goebbels episode behind it.

In Davos, Mr Genscher had urged the West to take Mr Gorbachev's reforms seriously and not to give up a potentially historic chance to achieve a lasting, peaceful accommodation with Moscow.

On Wednesday last week the mass circulation newspaper Bild published an interview with Mr Gennadi Gerassimov, a Gorbachev confidant and a Soviet foreign affairs spokesman, who suggested that President Richard von Weizaecker might visit Moscow soon in return for the late Leonid Brezhnev's trip to Bonn in 1981.

Although it is thought unlikely that the West German head of state would be able to arrange a visit to Moscow this year, there are also renewed hopes in Bonn that a long-promised visit by Mr Eduard Shevardnadze, the Soviet Foreign Minister, can take place in 1987.

The West Germans, meanwhile, have had a very high-ranking group of industrialists in Moscow for the past three days for an East-West conference which is due to end today. In addition to senior academics, the heads of Mannesmann, Ruhrgas, Salzgiter, Ferrostahl, Schloemann-Siemag and Kloeckner and Co, the Deutsche and Dresdner Banks all travelled to Moscow for the three-day conference.

The Germans are now apparently giving some thought to co-operating with the Soviet Union in space and have also offered to help modernise Soviet nuclear power plants in the wake of the Chernobyl disaster.

Some experts in Bonn believe that Moscow feels more comfortable dealing with West Germany than most other leading Western countries and that it would have been painful, both commercially and politically, to continue a cold war over the Goebbels remark.

Mr Kohl's decision to go ahead with the deployment of US cruise and Pershing 2 missiles in Germany soon after he came to power in late 1982 led to a very frosty period but once it had become clear to Moscow, about 18 months ago, that he was likely to be around for some time, ties began to normalise again.

Mr Gorbachev, though, is said to have been very angry about the Goebbels comparison and it is doubtful that he would want to meet Mr Kohl in person in the near future. Moscow does not believe that it has ever received a proper apology from the Chancellor, although he did try to distance himself from the remarks he made.

The Soviet Union particularly like the role, though, that Mr Genscher carves for himself between the two superpowers and would have been loathe to isolate him for too long. They were delighted at the strong showing of his party, the Liberal Free Democrats (FDP), in January's general election. During the campaign, Mr Genscher came under attack from right wingers in government for constantly trying to speak to Soviet leaders instead of standing firmly in the US camp on arms control and other issues.

Sakharov calls for more Soviet democracy

By Our Moscow Correspondent

DR ANDREI SAKHAROV, the Soviet physicist and dissident, told a government organised meeting in Moscow yesterday that more democracy in the Soviet Union was necessary to create the trust needed between the superpowers for deep cuts in US and Soviet nuclear arsenals.

The participation of Dr Sakharov in the two-day meeting of foreign and Soviet intelligentsia shows that the Kremlin is eager to cultivate world public opinion on disarmament issues. Mr Mikhail Gorbachev, the Soviet leader, is to address the participants in the meeting today in the Kremlin.

The conference is part of a Soviet offensive on human rights and disarmament issues which got underway with the release of Dr Sakharov last December. The two-day forum on peace and nuclear disarmament was attended by well-known figures such as Mr Graham Greene, Mr Gore Vidal and Prof J. K. Galbraith.

At the same time the violent police reaction last week to demonstrations by the family of Mr Iosul Begun, a Jewish dissident, calling for his release shows that elements of the KGB and security forces are either confused by or opposed to the Kremlin's attempts to defuse the human rights issue at home and improve its image abroad.

● Soviet industrial production last month was 0.1 per cent lower than in January 1986, with particularly poor results in the key machine-building sector, according to Central Statistics Board data released on Saturday, Reuter reports from Moscow. The figures, published in the weekly Ekonomicheskaya Gazeta, showed the energy sector performed well despite a severe cold spell in January.

Pravda wants 'more relaxed' foreign reports

BY PATRICK COCKBURN IN MOSCOW

The Soviet Communist Party daily, Pravda, is to give priority to improving its coverage of foreign affairs by its 42 foreign correspondents some of whom unnecessarily censor their own reports according to Mr Anatoly Karpuychev, the newspaper's managing editor.

He said in an interview that Pravda intended to extend the freedom of expression (Glasnost in Russian) allowed about events at home to articles about foreign countries where the paper had many competent correspondents but some were prone to "self-censorship" and needed "to be more relaxed."

Despite the less inhibited reporting in the press tolerated since Mr Mikhail Gorbachev became Soviet leader in 1985 pieces on foreign affairs by Soviet foreign correspondents are still faithful to stereotypes abandoned by Soviet journalists writing about events within the Soviet Union.

As evidence of a new willingness to tolerate diversity of opinion on foreign affairs Mr Karpuychev pointed to an article in this week's Pravda by Mr Kenneth Adelman, head of the US Arms Control and Disarmament Agency, accusing Moscow of using chemical weapons in Afghanistan and supplying them to Vietnam.

Mr Karpuychev said that Pravda, which has a circulation of 11.1m, was trying to get away from pep talks about fulfilment of the economic plan and concentrate more on the needs of ordinary Soviet citizens. He said last year the newspaper had received 622,000 letters an increase of more than 100,000 on 1985.

Pravda, whose two editions are printed in 56 cities across the Soviet Union every evening, has enormous influence within the country. Under the editorship of Mr Viktor Afanasyev it has been a key supporter of Mr Gorbachev over the past two years and its editorial line has proved a reliable indicator of the direction he wants to take.

This week the paper carried a page of letters calling for more democracy in what is evidently the opening shots in a general campaign by the Kremlin to attack middle level Communist Party and state officials for their opposition to political and economic restructuring.

A letter from the industrial city of Dnepropetrovsk in the Ukraine accused the average official of sabotaging the shift to democracy because "he will lose too many privileges and acquire a whole lot of obligations." Only by elections of directors and leaders, he continues, will organisations have "the opportunity to get rid of the administrator caught in a rut, the bureaucrat, the bribe taker, the boor and simply the idler."

Yugoslav debt crisis in view

YUGOSLAVIA seems to be heading for a financial crisis this year after reaching deadlock in talks with the International Monetary Fund (IMF) which wants a bigger say in running the economy, Western diplomats and economists said, Reuter reports from Belgrade.

They said Yugoslavia could have a serious balance of payments problem by the middle of this year, with the economy running off the rails. Yugoslavia has estimated hard currency debts of some $19bn.

Mr Josip Vrhovec, a member of the collective state presidency, said on Friday there was deadlock with the IMF, which conducts "enhanced monitoring" of the Yugoslav economy.

US and Japan to meet over semiconductor dispute

BY IAN RODGER IN TOKYO

US AND JAPANESE trade officials are to meet in the US early next month to try to settle their differences over the controversial bilateral agreement on semiconductor trade signed six months ago.

Officials of Japan's Ministry of International Trade and Industry reacted calmly to demands last week by the US Semiconductor Industry Association that the US Government impose immediate sanctions against Japanese companies for alleged violations of the pact.

Ministry officials said they noted the complaints, but doubted that the US Government would take any action before next month's meetings.

The US industry's main complaint is that Japanese chip producers have been undermining the agreement by selling chips at low prices in third markets.

Japanese officials said they were doing everything they could to make sure the agreement was respected. "We hope there will be positive signs in the market before the next meeting," an official said.

Meanwhile, the Japanese ministry has urged the country's six major chip makers to make contributions to an endowment fund for the establishment of an international semiconductor exchange centre next month.

The centre would be designed to promote sales in Japan of imported semiconductors. The Americans have complained that sales in Japan by US chip makers have declined since the chip agreement was signed.

Export insurance law reform

BY YOKO SHIBATA IN TOKYO

JAPAN is to amend its Export Insurance Law, mainly to help developing countries improve trade with Japan and other countries.

The draft revisions, the first in 10 years, include the establishment of an insurance system for imports made by advanced payment, the creation of intermediary trade insurance, the expansion of overseas investment and the introduction of a reinsurance system by participating in the Multinational Investment Guarantee Agency which will come into operation this autumn.

The Ministry of International Trade and Industry says a growing number of companies import goods from developing countries by paying in advance. A new insurance system will protect them from the risks associated with this and also promote more imports

The ministry is planning to underwrite Y450bn (£1.92bn) in advance payments for the current fiscal year. The new intermediary trade insurance is designed to promote offshore, or so-called triangular trade, by eliminating risks arising from restrictions in transfer of foreign currencies, war and bankruptcies of trade partners.

The scheme will protect Japanese trading companies and members of the Association of South-east Asian Nations

Sandoz queries French bill

By David Marsh in Basle

SANDOZ, the Swiss pharmaceuticals group, has questioned the size of a FFr 257m (£28m) damages claim announced by the French Government last week to meet the company's responsibility for Rhine pollution after a fire in a chemicals store last November.

The company is still waiting to receive details of the French claim, which appears to have been presented through the Swiss Government.

It is by far the biggest to be lodged in the wake of the international environmental damage caused by the blaze at a Sandoz warehouse in Basle, in which up to 30 tonnes of toxic chemicals were washed into the Rhine.

Mr Daniel Wagniere, a member of the Sandoz group's executive committee, said in an interview here that the size of the French claim "may be going too far."

Sandoz has not yet received official notification of the claim, but Mr Wagniere said he had heard it included indirect damages such as for hunters in the French region of Alsace who had been allegedly affected by the incident.

S Korean referendum proposed

BY MAGGIE FORD IN SEOUL

SOUTH KOREA'S opposition leaders, Mr Kim Dae Jung and Mr Kim Young Sam, yesterday tried to seize the political initiative by announcing two proposals designed to break a deadlock in negotiations with the ruling party. At the same time hints of a stronger commitment by the US to progress towards Korean democracy began to emerge, providing encouragement to opposition politicians.

At a news conference, which Mr Kim Dae Jung could not attend because he was under police house arrest, Mr Kim Young Sam called on President Chun Doo Hwan to meet the two leaders to discuss progress towards democracy. He also proposed that the Government should hold a referendum so that the people could decide what type of election they favour later this year.

The opposition wants a direct vote for a president while the Government favours a parliamentary-style election. A government spokesman rejected the opposition proposals, but the ruling Democratic Justice Party faces the problem that if it does not reach agreement with the opposition, any election it tries to hold will not be seen as legitimate.

Hints of a new approach from Washington began to emerge last week on the eve of a memorial rally for a student who died under police torture. Mr Gaston Sigur, US Under-secretary of State for East Asia, said in a speech in New York that Koreans had an historic opportunity to create a new political system to take over when President Chun steps down early next year as he has promised to do.

Early this week Mr James Lilley, the US ambassador to Seoul, held meetings with Mr Lee Min Woo, president of the New Korea Democratic Party, and Mr Kim Young Sam. He has said he may meet Mr Kim Dae Jung.

Both Kims have said that they are encouraged by what they see as a new approach by the Reagan Administration to the moves towards democracy. Mr George Shultz, the US Secretary of State, is due to visit Seoul early next month on his return from China. A better indication of the American position may then be apparent.

SHIPPING REPORT

Tanker rates continue to tumble

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

RATES continued to fall in the tanker market last week, with little prospect of short-term improvements, and fears that the weakness was spilling over into the dry cargo sector.

Galbraith's, the London brokers, described market conditions as "appalling" and forecast that the number of very large and ultra large crude carriers seeking employment in the Gulf would reach "horrendous" levels by the end of the month.

Some reports suggested that as many as 60 large tankers would be competing for cargoes, although more cautious observers put the number at between 45 and 50.

One US oil company was said to have received 18 offers of VLCC tonnage for a cargo from the Gulf to the West, though some of these ships were later reported to have secured business from Iran.

Demand for smaller ships in the 100,000 to 130,000 tons deadweight class was reported from West Africa, but rates were said to be tumbling.

Charterers were reported to be receiving offers for cargoes of 115,000 tons at below World-scale 40 for discharge in the US Gulf, with rates to Europe slightly higher.

Brokers said these rates were likely to be discounted significantly in further negotiations, however.

In the dry cargo market, brokers said an increasing number of ore/bulk/oil carriers were being switched to the Atlantic trades.

Denholm Coates, the London brokers, said two large vessels had been fixed at $7.50/$7.60 for cargoes of 80,000 tons from the US Gulf to Europe.

The level for Panamax ships, the largest able to pass through the Panama Canal, was relatively steady at around $8.25 to Europe and $13.75 to Japan, however.

World Economic Indicators

INDUSTRIAL PRODUCTION
(1980 = 100)

					% change over previous year
	Dec. 86	Nov. 86	Oct. 86	Dec. 85	
US	116.6	116.0	115.4	115.6	+0.9
	Nov. 86	Oct. 86	Sept. 86	Nov. 85	
UK	110.0	109.8	111.0	109.7	+0.3
Japan	118.9	120.7	123.1	121.4	−2.1
W. Germany	106.4	106.9	107.6	107.8	−1.3
France	103.1	103.0	102.3	103.7	−0.6
Italy	99.5	99.2	98.3	98.5	+1.2
Netherlands	107.2	106.9	109.1	109.9	−2.5

Source (except US): Eurostat

NORGES KOMMUNALBANK
US$75,000,000 8½% Bonds 1977 (81-92)
Redemption as of May 16, 1987

According to Article 6, Paragraph 1 of the terms and conditions of the loan all bonds which have not yet been drawn by lot are herewith called for redemption as of May 16, 1987 at the price of 102% of the nominal amount.

The bonds called for redemption will be paid as from May 16, 1987 at the price of 102% of the nominal amount against presentation of the certificates and interest coupons of May 16, 1988 and thereafter by the banks listed below:

(a) in the United States of America at Westdeutsche Landesbank Girozentrale, New York Branch
(b) outside the United States of America at the head offices of the banks listed below:
Westdeutsche Landesbank Girozentrale
Amsterdam-Rotterdam Bank N.V.
Kredietbank S.A. Luxembourgeoise
Orion Royal Bank Limited
Andresens Bank
Bergen Bank
Den norske Creditbank
Credit Commercial de France
Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Kredietbank N.V.
Schweizerische Kreditanstalt

The bonds called for redemption will cease bearing interest at the end of May 15, 1987. The equivalent of possibly missing coupons will be deducted from the principal amount.

Oslo, February 1987

Norges Kommunalbank

General Shareholders' Meeting

The General Shareholders' Meeting of Banca del Gottardo will be held on Thursday, February 26, 1987 at 11.00 a.m. at Palazzo dei Congressi (Room B1), Piazza Indipendenza 4, Lugano to resolve on the following:

AGENDA

1
Report of the Board of Directors for 1986.
2
Auditors' report.
3
Approval of the balance sheet and of the profit and loss account for the period ended December 31, 1986 and discharge of the Board of Directors.
4
Allocation of net profit.
5
Share capital increase from Sfr. 96'000'000.– to Sfr. 104'000'000.– and participation certificate capital increase from Sfr. 27'000'000.– to Sfr. 29'250'000.– through the issue of 80'000 new bearer shares and 22'500 new bearer participation certificates, par value Sfr. 100.– each, at the subscription price of Sfr. 300.– including stamp duties and expenses, with dividend rights as from January 1, 1987. Shareholders will be offered 1 new share for every 12 old shares owned, whereas participation certificate holders will be offered 1 new certificate for every 12 old certificates owned.
6
Verification of subscription of the 80'000 new shares and the 22'500 new participation certificates and of payment of the relative issue price of Sfr. 24'000'000.– for the shares and Sfr. 6'750'000.– for the participation certificates.
7
Modification of art. 4 of the by-laws.
8
Appointments.

The annual report for the year ended December 31, 1986, which includes the report of the Board of Directors, the Auditors' report, the balance sheet, the profit and loss account and the proposed distribution of profit, as well as the text of the proposed modification of the by-laws, are available to shareholders at the Bank's head office in Lugano, at the Zurich office and at branch offices in Lausanne, Locarno, Chiasso, Luxembourg and Nassau (Bahamas), from February 13, 1987.

The tickets of admission to the General Shareholders' Meeting will be issued by the general secretariat of the Bank against presentation of the shares or against manifest proof of their possession from Friday, February 13, 1987 to Wednesday, February 25, 1987 included.

The Board of Directors
Lugano, January 27, 1987

Company Notices

FIAT FINANCE AND TRADE LTD.
INTERNATIONAL ISSUE OF $US 100.000.000 GUARANTEED FLOATING RATE NOTES DUE 1991

We inform the bondholders that in accordance with the terms and conditions of the notes, Fiat Finance and Trade Ltd. has elected to redeem all of its outstanding notes on February 24, 1987 at 100%.

Interest on the said notes will cease to accrue on February 24, 1987.

The notes will be reimbursed, coupons nr 5 and followings attached according to the terms and conditions of the notes.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

NOTICE TO HOLDERS OF
TEXACO CAPITAL N.V.
11¾% Convertible Subordinated Debentures due 1994

Texaco Capital N.V. hereby gives notice to the holders of the 11¾% Convertible Subordinated Debentures due 1994 that if any holder presents such security for conversion any time between December 31, 1986 and April 30, 1987, inclusive, the holder will receive interest accrued from May 1, 1986 through December 31, 1986 inclusive in addition to common stock.

Dated: February 16, 1987

NOTICE TO HOLDERS OF
TEXACO CAPITAL N.V.
11¾% Convertible Subordinated Debentures due 1994

Texaco Capital N.V. hereby gives notice to the holders of the 11¾% Convertible Subordinated Debentures due 1994 that if any holder presents such security for conversion any time between December 31, 1986 and May 14, 1987, inclusive, the holder will receive interest accrued from May 15, 1986 through December 31, 1986 inclusive in addition to common stock.

Dated: February 16, 1987

BASE LENDING RATES

	%		%		%
ABN Bank	11	● Charterhouse Bank	11	● Morgan Grenfell	11
Adam & Company	11	Citibank NA	11	Mount Credit Corp. Ltd	11
Allied Arab Bk Ltd	11	Citibank Savings	¶12.45	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	City Merchants Bank	11	National Girobank	11
Allied Irish Bank	11	Clydesdale Bank	11	Nat Westminster	11
American Exp. Bk	11	Comm. Bk. N. East	11	Northern Bank Ltd	11
Amro Bank	11	Consolidated Cred	11	Norwich Gen. Trust	11
Henry Ansbacher	11	Co-operative Bank	*11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Cyprus Popular Bk	11	Provincial Trust Ltd	12
Associates Cap Corp	11	Duncan Lawrie	11	R. Raphael & Sons	11
Authority & Co Ltd	11½	E. T. Trust	12	Roxburghe G'rantee	11½
Banco de Bilbao	11	Equatorial Tst C'p plc	11	Royal Bk of Scotland	11
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Trust Bank	11
Bank Leumi (UK)	11	Financial & Gen. Sec.	11	Standard Chartered	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11½	Trustee Savings Bank	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11½	UDT Mortgage Exp	¶12.25
Bank of Ireland	11	● Robert Fleming & Co	11	United Bk of Kuwait	11
Bank of India	11	Robert Fraser & Ptrs	12	United Mizrahi Bank	11
Bank of Scotland	11	Grindlays Bank	‡11	Westpac Banking Corp	11
Banque Belge Ltd	11	● Guinness Mahon	11	Whiteaway Laidlaw	11½
Barclays Bank	11	HFC Trust & Savings	11	Yorkshire Bank	11
Benchmark Tst Ltd	11	● Hambros Bank	11		
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shanghai	11		
CL Bank Nederland	11	Lloyds Bank	11		
Canada Permanent	11	Mase Westpac Ltd	11		
Cayzer Ltd	11	Meghraj & Sons Ltd	11		
Cedar Holdings	12	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¼% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.

UK NEWS

INFLATED CONTRACTS PRICES ALLEGED

Marconi faces defence work profits inquiry

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

THE MINISTRY of Defence (MoD) is examining allegations that excessive profits may have been made on certain contracts placed with Marconi, the radar and defence electronics subsidiary of the GEC electronics group.

The MoD yesterday refused to give details but indicated that at present the inquiry was being conducted at an internal level by its own police force. This means that so far nobody from outside the ministry has been called in for investigation.

"You will understand that in the circumstances I can make no further comment," spokesman said.

Marconi is among the country's largest defence contractors, and it is not clear which particular contracts are under examination. It is believed, however, that the questions at the centre of the inquiry concern a group of companies based at Portsmouth on the south coast of England. According to the allegations, prices of contracts being handled by these companies have been inflated, leading to larger profits than agreed in the original negotiations.

Mr Dale Campbell-Savours, the Labour MP and one of the most persistent critics of the Government's defence procurement programme, said yesterday that he had tabled questions about the allegations in the House of Commons. He is also intending to raise the issue with the powerful all-party public accounts committee, of which he is a member.

"We have been given repeated assurances in parliament on the question of procurement and the effectiveness of the checking system," he said.

Wellcome Foundation wins court battle over trade marks

BY RAYMOND HUGHES, LAW CORRESPONDENT

THE WELLCOME Foundation has won a High Court victory in its battle to stop its trade marks being infringed by parallel imports of pharmaceutical products from other EEC countries.

The court has granted Wellcome a declaration that infringements of trade-mark rights were a relevant consideration to be taken into account by the Secretary of State for Social Services when issuing Product Licences (Parallel Imports) under the 1968 Medicines Act.

Wellcome had sought judicial review of a decision of the Department of Health and Social Security that possible trade-mark infringements were irrelevant to a decision whether or not to grant a licence.

The case concerned one of Wellcome's main products, an anti-bacterial medicine marketed in the UK under the trade marks Septrin or Septrin Forte.

Mr Justice Webster said that Wellcome had an annual turnover of £9.5m in the UK for Septrin, which it also manufactured and marketed in other EEC countries either as Septrin or Eusaprim.

Wellcome had calculated that over £900,000 of Eusaprim was being imported into the UK and sold, without Wellcome's consent, under the name Septrin each year. It was being dispensed by pharmacists in about 10 per cent of cases where doctors prescribed Septrin.

The company complained that it was being seriously damaged by repeated infringements of its trade marks. It said that, because Eusaprim cost less in other EEC countries than Septrin did in the UK, there was an incentive to importers to sell it to UK pharmacists.

Pharmacists made excess profits – ultimately at the expense of the British taxpayer – by dispensing Eusaprim because they were reimbursed by the National Health Service on the basis of the UK price of Septrin, Wellcome claimed.

Holding that trade-mark rights were a relevant consideration, the judge said he saw nothing to prevent the licensing authority asking all applicants for licences whether they had reason to believe that the name applied for might be protected by a registered trade mark.

Nor was there anything to prevent the licensing authority informing any third party whose rights might be infringed of the terms of the application.

Aluminium price climbs to highest level for 21 months

BY STEFAN WAGSTYL

ALUMINIUM prices have risen to their highest level for 21 months amid reports of shortages of metal held by stockholders.

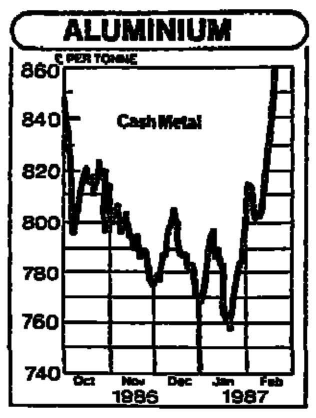
Aluminium closed on Friday at £859.90 ($1,307) a tonne for metal for immediate delivery on the London Metal Exchange, £56 up on the week and £89.15 higher than at the beginning of the year.

Mr Ronald Shorr, an analyst at Bear Stearns, the US broker, said: "There's going to be a little bit of a mad scramble to get aluminium."

Traders said the immediate cause of the price increases was an apparent fall in stocks in recent months. Figures published last week by the International Primary Aluminium Institute showed that stocks of primary metal in non-Socialist countries fell for the fifth month running in December – by 24,000 tonnes to 1.86m tonnes, or the lowest level since spring 1986.

Stocks in London Metal Exchange warehouses of 109,475 tonnes are less than half their level at the beginning of last year.

Traders said that some merchants, with access to metal supplies, are taking advantage of this near-term shortage. One company in a position to do this is Marc Rich, the Swiss-based trading company, which last year signed three agreements with US smelters securing from them supplies of 210,000 tonnes a year. The plants treat the merchant's material on a toll basis.



Meanwhile, the short-term pattern of supply and demand has been distorted by growth of the market in aluminium options – contracts which give the buyer an option to buy metal at a fixed price at a future date (without putting him under an obligation to do so as in a standard futures contract). Because of heavy interest in options from speculative investors, who have no intention of taking delivery of metal at the end of day, traders found it difficult to measure the underlying demand from aluminium.

As a result traders are divided about the underlying outlook for aluminium prices.

In a report published last week, LME trader Rudolf Wolff forecast rising prices saying that supply and demand in 1987 would be virtually balanced at about 12.9m tonnes with rising production closing an existing deficit to consumption.

Mr Wolff conceded that new smelters were coming on stream – a 115,000 tonnes-a-year plant at Becancour in Canada and a 150,000 tonnes-a-year plant at Portland, in Australia. However, this could be offset by closures in Europe, where a number of smelters were unprofitable because their costs are calculated in currencies which have appreciated against the US dollar. Some 500,000 tonnes of annual capacity might potentially, be closed, said Mr Wolff's report.

Mr Wolff said that demand was more buoyant than had been expected, particularly in the US car industry, which collectively is one of the world's largest aluminium buyers.

However, Mr Angus Macmillan, aluminium analyst with Shearson Lehman Brothers, disagrees with Mr Wolff's forecast. He sees no reason why prices should rise once the factors which have distorted the market in the short-term have worked themselves out. Traders are still adjusting to the effects of strikes in the US last year which produced shortages in North America.

Dryer group introduces plan for flexible working hours

BY DAVID BRINDLE

CROSSLEE, a Yorkshire-based manufacturer of tumble dryers, has introduced a working week of 32 hours in the summer and 43 hours in the winter to match the strongly seasonal demand for its products.

The move is one of the most radical of a growing number of flexible working time schemes being brought in by companies which face fluctuating market demand.

Crosslee began trading last year following a management/consortium buy-out of the former Philips Electrical Goods factory at Hipperholme near Halifax, north England. Philips decided to concentrate its washing machine production in Italy.

The factory had employed a workforce of about 550 of which 180 were re-employed for production of tumble dryers for Philips, for other brand named companies and for Crosslee's own recently launched product line.

Full details of the flexible working time scheme are published today in the latest issue of Industrial Relations Review and Report, the fortnightly bulletin of the Industrial Relations Services research group.

By agreement with the Amalgamated Engineering Union and the manufacturing union Tass, which represent a majority of the workers, a 32-hour four-day week was worked from June 23 to August 15 last year and a 43-hour five-day week will be worked from then until April 4.

The work patterns are equal to 39 hours throughout the year though overtime is paid after 32 or 43 hours. There is further seasonal bias in holiday provision which includes a full week's shutdown at Easter, and the spring bank holiday and two further "company days" fixed to suit the business.

Crosslee has also introduced greater flexibility between jobs reducing to five the number of operative grades within the existing system of group working, rather than production-line assembly and paying them basic salaries of £6,003 to £7,204.

About 47 per cent of the total workforce has taken up share options in the company after the buy-out. There is virtual single status for all employees though a change from weekly cash wages to monthly payment by credit transfer is said to have proved less popular with the manual workers than has the concurrent abolition of clocking on.

Industrial Relations Review and Report 386: IRS, 18-20 Highbury Place, London. N5 1QP; By subscription.

Perkins to cut diesel engine workforce by further 450

BY NICK GARNETT

PERKINS, the diesel engine manufacturing subsidiary of the Varity Corporation, formerly Massey Ferguson, is making 450 workers redundant at its plant in Peterborough, Northhamptorshire in the Midlands, in another cost-saving measure in the diesel engine industry.

The company has told its 4,100-strong workforce that the cuts are necessary to maintain Perkins' competitive position. About 350 of the job losses will be among Perkins' 3,000 hourly paid workers.

Perkins, which reduced its workforce significantly over the past few years, is suffering from the same kind of aggressive pricing and weak demand afflicting the rest of the diesel engine industry. Engine making worldwide suffers from a 50 per cent manufacturing over capacity.

Cummins, the US diesel engine maker, announced towards the end of last year a rationalisation programme in the US and UK which included the closure of its component plant at Darlington, north England. It confirmed last week the loss of 360 jobs in the north-east of England as part of that move.

One of the reasons for closing the components plant was Cummins' failure so far to meet a target to cut production costs worldwide by 30 per cent. Much of these cost-cutting pressures are coming from Japanese engine producers.

The plant which makes 3,4,6 and 8-cylinder engines up to 250 hp has the capacity to manufacture about 230,000 built-up engines a year.

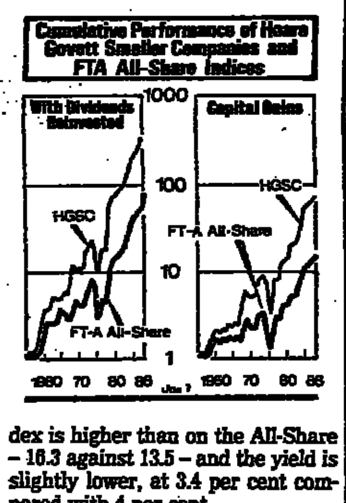
It is believed to have been operating at a rate of about 115,000 built up engines through 1986, together with a significant number of knock-down engine kits.

● Van Den Bergh and Jurgens, the edible fats producer, is planning further redundancies at its margarine works at Bromborough on the Wirral, Merseyside, north-west England.

Smaller companies 'perform the best'

BY NIKKI TATE

SMALL QUOTED companies have been a significantly better investment than their larger counterparts, according to a new index launched by stockbrokers Hoare Govett.



The Hoare Govett Smaller Companies Index – which is based on those companies which make up the lowest 10 per cent market capitalisation on the main UK stock market – would have outperformed the FT All-Share index by 6 per cent a year compound since 1955.

Thus, £1 invested in the HGSC in 1955 would have been worth £360 by the end of 1986, assuming reinvestment of dividends. On the same basis £1 invested in the All-Share would have grown to just £71.

Excluding the income element and concentrating on price gain, £1 in the HGSC index would have turned into £53 and £15 in the All-Share.

The index creators – Professor Paul Marsh and Dr Elroy Dimson from the London Business School – concede, however, that there is considerable variation between years. The new index would have underperformed the All-Share in about a quarter of the years since 1955, and in 1975, the worst year, the HGSC underperformed by 36 per cent relative to the All-Share.

The new index covers 1,206 companies, compared with about 730 in the All-Share. It is an arithmetic index, like the FT-SE 100 share and the All-Share, with each constituent weighted by market capitalisation. The total market capitalisation is £31bn – £300bn for the All-Share – and the largest constituent at end-1986 was valued at just £108m.

Not surprisingly, the average price-earnings ratio on the new index is higher than on the All-Share – 16.3 against 13.5 – and the yield is slightly lower, at 3.4 per cent compared with 4 per cent.

The yield on smaller companies has in the past exceeded that of their larger counterparts – explaining the marked outperformance in terms of total return, Prof Marsh says.

The main HGSC index does not include unlisted stocks (USM), although an extended version with these included is available. The inclusion of USM companies, said Prof Marsh, produced "slight underperformance," compared with the normal HGSC index.

The new index will be rebalanced to allow for the entry of new issues and the exit of companies which have failed or been taken over only once a year. It will, however, be compiled daily and monthly.

The compilers have calculated that the "average" stock in the index trades every three days, compared with over three times a day for the "average" All-Share constituent.

OBITUARY

Dennis Poore: motor cycle industry leader

MR DENNIS POORE, who has died at the age of 70, was chairman of Manganese Bronze for 21 years and the main driving force behind the creation of the ill-fated Government-backed Norton Villiers Triumph (NVT) motorcycle company in 1972.

A motorcycle enthusiast and car racing driver in his youth, Mr Poore was best-known as a businessman for his role in the motorcycle industry.

After acquiring Norton from the receivers, he built up the Norton Villiers group and was then persuaded by the Conservative Government to lead the rescue of the troubled BSA-Triumph concern with the aim of maintaining a viable UK industry.

From the start, however, the new company was hit by unexpected problems, notably a long sit-in at one of its factories and a determined assault on the European market by Japanese manufacturers.

Most of the NVT business was eventually liquidated although Mr Poore retained an interest in rotary engine development.

At Manganese Bronze, the company which manufactures the traditional London taxi, Mr Poore also faced the problems posed by high inflation and low productivity which was common within the British engineering sector in the 1970s. In the last five years, however, he steered the group through a period of steadily increasing profits.

Contracts and Tenders

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Art Galleries

Personal

COMMERCIAL LAW

Charterers not held liable for congestion delay

MARC RICH & CO LTD v TOURLOTI COMPANIA NAVIERA SA
Queen's Bench Division (Commercial Court): *Mr Justice Anthony Evans: February 9 1987*

WHERE a charterparty provides that charterers are to be exempt from liability if "unavoidable hindrances" prevent them from discharging, they are not liable for demurrage incurred when congestion, which began during laytime, temporarily prevents the vessel from reaching her discharging berth.

Mr Justice Anthony Evans so held when dismissing an appeal by *Marc Rich & Co Ltd*, owners of the Kalliopi A, from an arbitrators' decision that charterers Tourloti Compania Naviera SA, were exempt from demurrage liability in respect of delay caused by congestion.

HIS LORDSHIP said that by a voyage charterparty dated May 24 1983 the agreed destination was „one safe berth Bombay or so near thereto as she may safely get ... and there deliver the cargo."

The master tendered notice of readiness to discharge on June 30. The vessel was then within the port of Bombay and ready to discharge, but owing to non-availability of any discharging berth she was anchored at the pilot station.

She moved to inner anchorage on September 6, and some cargo was discharged into lighters, and she finally berthed on September 28, resuming discharge the following day.

The charter entitled the vessel to give notice of readiness to discharge "WIBON" (whether in berth or not). Time allowed for discharging expired on August 20.

The obligation to pay damages after August 20 was admitted, subject to the effect o clause 36 of the charterparty, which provided "strikes or stoppages and all ... other unavoidable hindrances which may prevent ... discharging ... always mutually excepted."

The charterers contended that the congestion which prevented the vessel from reaching the discharging berth was within the clause, and that "always mutually excepted" were words of exception apt to exempt them from liability to pay liquidated damages, commonly described as demurrage.

The congestion began during laytime. It was therefore, not a case where clause 36 was relied on to exclude liability for the consequences of an event occurring when the charterers were already in breach of contract. The charterers' interpretation of the clause meant that the exemption only became effective when, laytime having expired, the charterers became in breach.

The shipowners disputed the contention that non-availability of a discharging berth was an "unavoidable hindrance" within the clause. *They said clause 36 only operated* in favour of either party when, as a result of some major and truly exceptional event, further performance of discharging obligations was prevented so that performance was impossible.

The arbitrators accepted that "unavoidable hindrances" included congestion, which they found was by no means unusual at Bombay at that time. But they rejected the further submission that clause 36 prevented both laytime and demurrage *running while the vessel was waiting*. They said it would be inconsistent with the WIBON provision to construe clause 36 as preventing laytime from running: "The very purpose of the WIBON provision *is* to the contrary."

In the *Amstelmolen (1961) 2 Lloyd's Rep 1* the Court of Appeal held that congestion of loading berths by other shipping amounted to an "obstruction beyond the control of the charterers" within the Centrocon Strike clause. In the light of the case, "all ... other unavoidable hindrance which may prevent ... discharging ... did cover congestion *at* the discharging port.

Mr *Mildon submitted* that the *eiusdem generis* rule of construction should apply.

Apart from the difficulty of identifying the supposed genus, the words were wide enough to include at least a well recognised kind of "hindrance", as congestion was.

He also submitted that the clause only applied when the cause of delay was somehow exceptional or abnormal.

Given that clause 36 covered congestion and that it applied only when that *or another specified* cause prevented discharging, there was no justification for holding that some such word as "unusual" or "exceptional" must be implied. Nor was there any general rule which prevented the clause from applying when congestion was normal and known to both parties.

The issue on the present appeal was whether clause 36 operated to exclude the charterer's liability for demurrage.

To have that effect it must be clearly intended to do so. Short of identifying "demurrage" by name, the words were clear. "Unavoidable hindrances mutually excepted" was commercial shorthand for "neither party to be liable for the consequences of," and the charterers' liability for the consequences, if discharging was prevented, was measured in terms of demurrage.

Clause 36 was in direct conflict with clause 13 which provided "if longer detained, charterers to pay demurrage," though it was not otherwise inconsistent with the laytime and discharge obligations. Reading the charterparty as a whole it was permissible to give effect to clause 36 as an exception to the liability otherwise imposed by clause 13.

Mr Mildon submitted that even so the clause only operated when discharging was "prevented," meaning *total prevention either* permanently or for long enough to frustrate the charterparty. The present case, he said, was one of delay rather than prevention in that sense.

It was true *that* many *clauses* used the phrase "prevent or delay," so that "delay" was conspicuously absent here, but Lord Reid's analysis of the Centrocon clause in *The Spalmatori (1964) AC 868* made the different distinction between "prevent" meaning a stoppage of work and "delay" meaning that the operation was prolonged and completed later without stoppage at any time.

"Prevent" meant that loading and discharge could not be begun or continued for a time, and the exception relieved charterers for liability *for demurrage* which otherwise became due in that period. Mr Collins for the charterers was right to concede that there was no defence under clause 36 in respect of periods when the vessel was able to discharge.

Mr Mildon argued that the vessel was not prevented from discharging by congestion of the discharging berths because she could discharge while at anchor, that being the position "so near thereto" which became the contractual destination.

It was, however, merely the alternative destination, and the shipowner was not entitled to treat it as the agreed discharging place. That remained "one safe berth Bombay."

Clause 36 exempted the charterers from liability for demurrage in respect of the period when congestion prevented discharge from taking place.

For the charterers: Michael Collins (Shaw and Croft).

For the shipowners: David Mildon (Holman, Fenwick and Willan).

Rachel Davies
Barrister

UK NEWS

Andrew Taylor looks at the decision to end a 50-year-old price cartel

Upheaval in the cement market

THE BRITISH cement industry is facing its biggest upheaval for more than half a century. The decision by the three UK cement manufacturers last week to scrap their common pricing agreement ends a price-fixing cartel which has been in existence since 1934.

Manufacturers will now be able to compete on price with each other and with cement imports and other building materials which have been eating into traditional domestic cement markets.

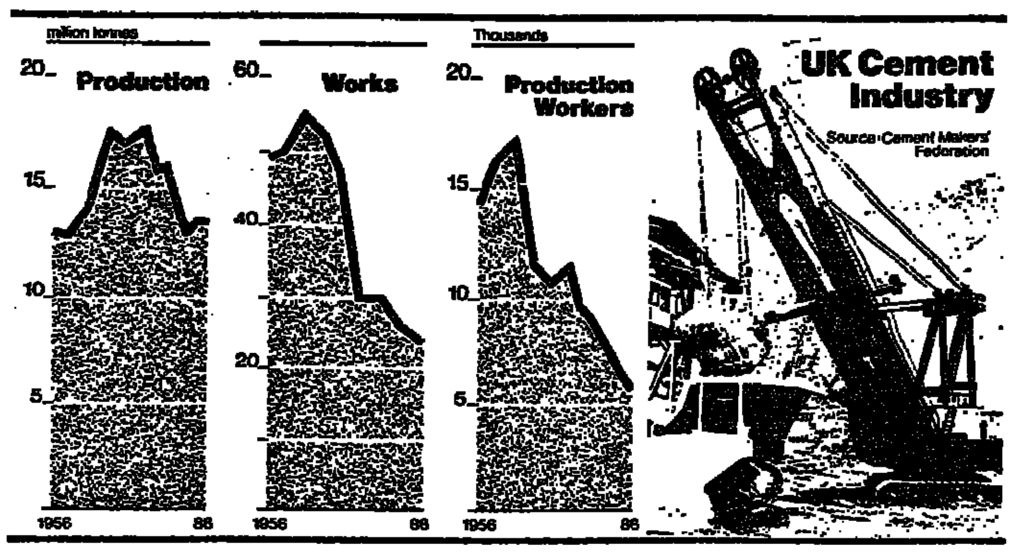
The move has as much to do with the internal battle for market share between the main British cement producers as it does with need to free the industry to compete more effectively with imports and other products.

Mr Jim Owen, managing director of Ready Mixed Concrete (RMC), the cement industry's biggest single customer, is not surprised that the pricing pact has ended. "It has been under strain for some time. It is no secret that in a bid to win business cement makers have been offering under-the-counter discounts, contrary to the pricing agreement."

RMC is also a purchaser of Greek cement which started to be imported into Britain last year. "It is cheaper and of equivalent quality to British cement. We buy only a very small amount, but we believe we are looking after the best interests of our shareholders," said Mr Owen.

Blue Circle, Britain's biggest cement manufacturer, is the driving force behind the decision to end the agreement. It does not believe the move will herald a price war but will allow companies to compete more efficiently.

Blue Circle has seen its share of the UK market slip from around 60 per cent to 54 per cent. It believes the ending of the agreement will help it to reverse that trend.



It argues that restrictive pricing has cushioned manufacturers from the realities of the market place, made them more inefficient and inhibited management from carrying out much-needed rationalisation of the way in which domestic producers operate and compete.

It says that companies, free from price competition, have been prepared to deliver cement long distances to break into local markets where they do not have plants. In an open market they could expect to be undercut on price by local producers.

This is an important point for Blue Circle which has a much wider geographic spread of plants than does its two British rivals Rugby Portland and Rio Tinto-Zino which owns Castle Cement.

All three British manufacturers accept that the common pricing policy has tied the industry's hands during a period when it is facing increased competition from other sources.

Last year the three manufacturers sold around 13.4m tonnes of cement in the UK. This compares with an average of 17.5m tonnes sold each year between 1966 and 1972.

The industry has also had to face the threat of cut-price imported cement. Imports, mostly bagged cement from Poland and East Germany, last year rose to 468,000 tonnes. This still represents only just over 3 per cent of total sales, but manufacturers fear that tonnages could increase as importers gain a foothold.

The arrival last summer of the first boatload of Greek cement, which domestic manufacturers claim is heavily subsidised by the Greek Government, sent British ministers scurrying off to the European Commission in Brussels to complain about unfair competition.

Domestic producers must also contend with increased competition from other products such as pulverised fuel ash and blast furnace slag used in the manufacture of concrete.

Pulverised fuel ash, produced by power stations, can improve the flow of concrete and reduces heat during setting which can cause cracking. It also means that less cement is required.

It is estimated that the use of additives such as pulverised fuel ash has reduced cement sales to concrete manufacturers by as much as 600,000 tonnes a year.

GM division leads race for radiator group

BY JOHN GRIFFITHS

GENERAL MOTORS' Harrison Radiator division has become the front runner to acquire Rover Group's Llanelli Radiator subsidiary, based in Dyfed, South Wales.

A team from the New York-based GM subsidiary is visiting the plant. An agreement is expected to be signed by the end of March.

Harrison Radiator's interest in the plant followed an approach from Rover Group's financial advisers, Hill Samuel.

Harrison Radiator already has a facility in France, which produces car heating and airconditioning assemblies, as well as cooling system parts for GM's Opel cars subsidiary and other customers in Europe. A Harrison Radiator spokesman said that the company saw the potential acquisition of Llanelli Radiator, which has more than 800 employees, as providing the base for a European headquarters. However, the spokesman refused comment on how far negotiations had advanced.

With an annual turnover of about £30m, Llanelli Radiators is a substantial supplier of radiators and other components to GM's UK cars subsidiary, Vauxhall/Opel.

Although part of Austin Rover, having been transferred there from the Unipart parts division in January 1985, more than half of Llanelli's annual turnover comes from non-Rover group companies.

An Austin Rover spokesman would confirm only that GM was "among several parties" which have explored buying the Llanelli company. They include a management group led by the plant's manager, Mr Mike Reilly.

Llanelli Radiator is said by its parent Rover Group to be trading profitably, but no details have been given.

Austin Rover depends on Llanelli for its own radiator and seat frame supplies. No conflict of interest is seen under GM ownership, however, as other GM plants are well-established suppliers of others components to Rover Group companies as well as Ford.

The great Airbus, Eurotunnel muddle

JOHN PLENDER

WHEN it comes to giant investment projects the British seem congenitally incapable of striking a sensible balance between private and public sector involvement. The latest example is the Channel tunnel. The first attempt to raise private risk capital in Britain for this spectacular infrastructure project was saved from ignominy only by judicious telephone calls to the big investment institutions by Mr David Walker of the Bank of England. The result is that a second capital raising attempt later this year will labour under the disadvantage of earlier bad publicity: Any investment that needs a call from the Bank to keep it afloat must be fishy, runs the argument—and the mixed metaphors in no way retract from its plausibility, especially when awkward questions remain about the management.

In contrast, we now have the same Tory government falling over itself to pump money into the next generation of the European Airbus project. This is by any standards a highly speculative investment since the potential demand, especially for the A340 version of the Airbus, remains very uncertain.

The Government claims to believe that the thing is commercial. Yet British Aerospace, which wants to make the wings, is not raising private risk capital for the venture. And the taxpayer may never know whether the money shows a proper return since neither Airbus, nor any of the participants in the project, nor any of the governments that finance the programme, will reveal the figures.

If the politically non-aligned Institute for Fiscal Studies is to be believed, Labour is no less capable of contentious behaviour on the issue of public sector financing. Indeed, the IFS seems to think Shadow Chancellor Roy Hattersley is barking up several wrong trees. In a report published last week it concludes, among other things, that Labour's case for a new National Investment Bank is pretty unconvincing and that the proposed means of financing the bank are unduly complicated.

Why all the muddle? The problem on the Tory side starts with an over-crude equation: private sector good, public sector bad. This has no justification in economic theory. Indede, if hard-line Thatcherites took the time to read Adam Smith's *Wealth of Nations*, they would find a classic case for public sector investment based on the divergence between private and social advantage.

Smith cites the example of the lighthouse, where the lighthouse keeper cannot reach out to collect fees from ships, in exchange for saving lives and goods; and the light is most efficiently provided free of charge by the state since it costs no more to warm a hundred ships than a single ship of the threat of rocks.

The case for public financing of infrastructure projects like the Channel tunnel is more complex. But using public funds is perfectly respectable where the risks to society in the project are less than they are to the private investor; or again where there are wider benefits to society. If the Government believes that there is an economic case for the tunnel, there is surely a call for public finance.

Airbus, however, is something else again. The arguments for government support rest on the fear of an American monopoly, or more specifically a monopoly for Boeing, in a key high technology industry. They also draw strength from the fact that Boeing and other US competitors of British Aerospace enjoy huge subsidies arising from the Pentagon's financial support for military projects. Non-disclosure of the non-returns on Airbus can then be justified on the ground that to reveal the extent of the losses would provide the Americans with ammunition in the war of words over alleged European protectionism.

Suspicious minds will nonetheless see something more than coincidence in the way inherent Tory prejudices against public support for British industry seem to melt away when elections loom. They may also note that a powerful nationalistic streak in Mrs Thatcher's Cabinet sometimes finds an outlet in aggressively ...mercantilist posturing on trade issues.

Labour's problem is a rather different one. It boils down to the fact that many of the party's economic nostrums are heavily influenced by friends in the TUC, but much less influenced by people with practical experience in the City. Mr Hattersley's plans to repatriate the British investment institutions' overseas nest egg are undeniably clever and would certainly provide some additional support for sterling in markets that are traditionally suspicious of Labour.

But in a world where capital flows more freely than ever between different financial centres, a Labour government could finance a sizeable current account deficit on the balance of payments without such help. And as the IFS points out, there is no necessary connection between the repatriation of funds and the financing of the National Investment Bank.

Oddly enough, one of the few things that some City folk think a National Investment Bank might usefully do is to provide finance where, as in the case of British Aerospace and Airbus, a company cannot support a large potentially worthwhile project on the basis of its existing balance sheet. Their worry is that such decisions would be unduly influenced by political considerations, which is just what the sceptics are saying about the present Tory Government's sudden enthusiasm for Airbus.

Maybe the great ideological divide is less than we are encouraged to believe. Until the election is out of the way, that is.

Hard pressed in Singapore

JUSTINIAN

SINGAPORE's effective ban on the Asian Wall Street Journal, because its editor declined to publish a letter from a government official, has presented the owners of this famous financial newspaper with a legal poser.

Can it, and should it challenge the censorship of a foreign newspaper in the courts of Singapore? If the proprietors, the Dow Jones company, do go to court, it will present the local judiciary both with some novel legal issues that it has barely confronted before, and with a direct challenge to its proclaimed independence from government.

The Singapore Government's action will, from today, restrict the paper's circulation in Singapore to 400 copies an issue. The Hong Kong-based regional business sells about 5,000 copies in Singapore.

The Asian Wall Street Journal has been engaged in a running battle with the authorities. Last June the Singapore police conducted an inquiry into a Journal article about a commission set up to investigate allegations (by the opposition leader of the Workers Party, Mr Ben Jeyaretnam) that the Government had tampered with the judicial system. The police twice interviewed the paper's Singapore correspondent, Mr Stephen Duthie, an American citizen, who wrote the article. The latest dispute again centres on Mr Duthie, who wrote last December about a second tier stock market, the Stock Exchange of Singapore Dealing and Automated Quotation System (SESDAQ).

Mr Koh Beng-Song, director of the banking and financial institutions department of the Monetary Authority of Singapore, wrote to the editor complaining that the article contained factual errors and that Mr Duthie was biased against the Government.

The editor replied that an investigation had revealed no inaccuracies in the article. He invited Mr Koh to write for publication a letter stating his point of view. A series of meetings between government officials and executives of Dow Jones failed to resolve the differences. When the editor declined to publish Mr Koh's letter, because he felt it attacked Mr Duthie for unprofessional conduct of which he was not guilty and stated inaccuracies that did not exist, the tension reached breaking point. The minister of Communications and Information reached for his legal powers.

Under Section 18A of the Newspaper and Printing Presses Act 1974—introduced into the law last August—the minister "may, by order published in the Gazette, declare any newspaper published outside Singapore to be a newspaper engaging in the domestic politics of Singapore." The legislation does not define what "engaging in the domestic politics of Singapore" means. There is no appeal against legislation which appears to give the minister complete discretion.

However, the law does not state that the minister's decision is final or that the jurisdiction of the courts cannot be resorted to in any circumstances. Recent developments in administrative law in the common law countries (which include Singapore) hold out some hope to the proprietors that they could argue that the minister has acted illegally.

The law generally provides that, in exercising a power to ban foreign newspapers, the minister must direct himself properly on the relevant law. If a court were to come to the conclusion that Mr Duthie's article contained no factual errors and that he had not behaved unprofessionally, it might further conclude that the minister had misdirected himself.

Likewise the court would quash the minister's order if it concluded that no reasonable minister, properly directing himself, could reasonably have come to the conclusion that the Journal was engaging in the domestic politics of Singapore. A court might well interpret the law as meaning that the newspaper was going beyond accurately stating the facts about an event without expressing an opinion. Mere reportage would not be "engaging" in politics. It is only the free comment and not the sacred fact—to adopt the C. P. Scott dictum—that would fall foul of the law.

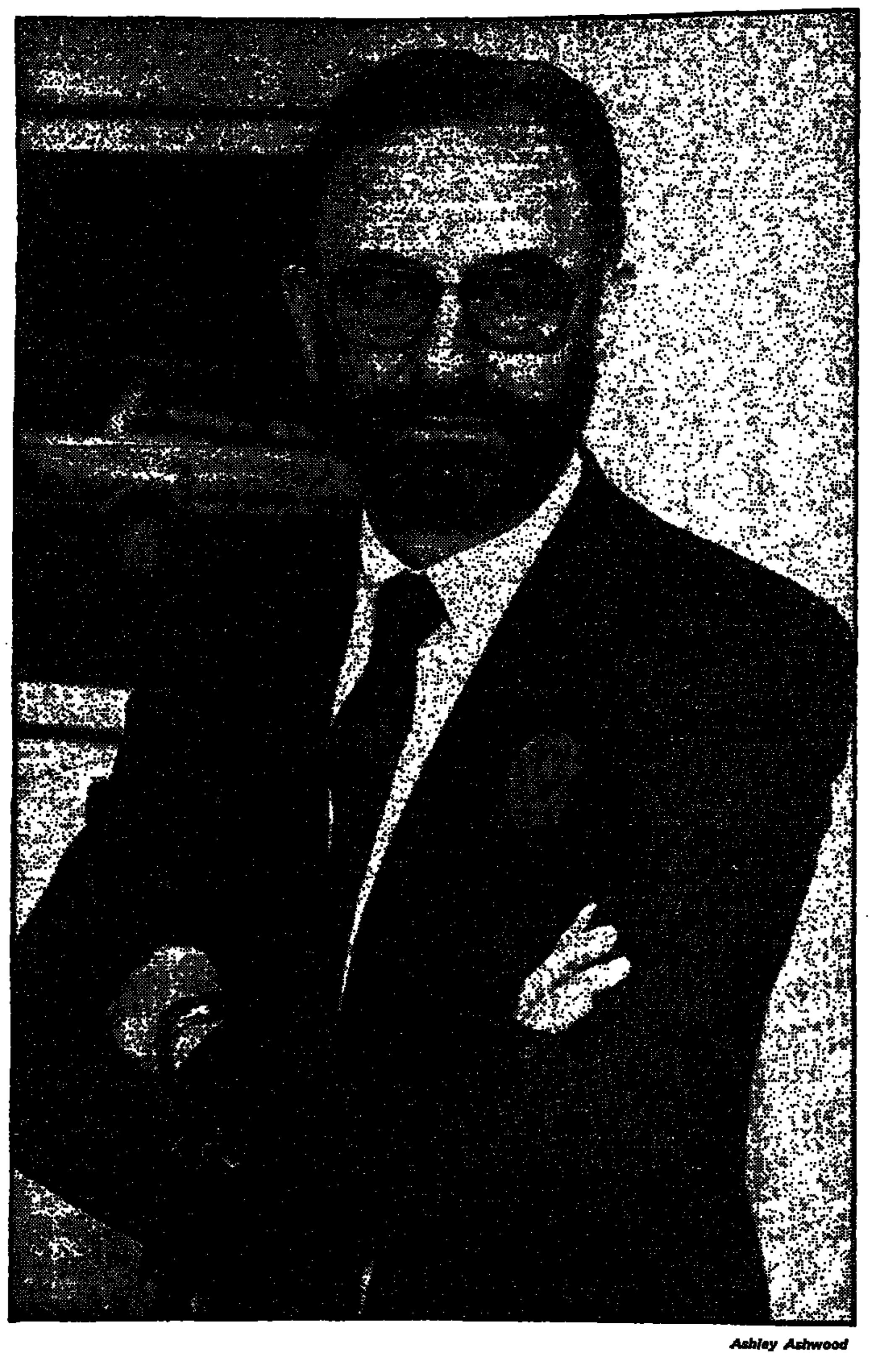
Any resort to the courts of Singapore, which incidentally retains the Judicial Committee of the Privy Council as the final court of appeal, would be watched with the keenest interest both inside and outside professional legal circles. The judges of the Singapore Supreme Court are unaccustomed to challenges by way of judicial review of ministerial decision-making.

Last November the Supreme Court of Malaysia quashed the expulsion order against an American journalist for the Asian Wall Street Journal from Kuala Lumpur, on the grounds that the Malaysian Government should have given reasons for the revocation of the journalist's work permit. If the Singapore Court follows this example, it may provide encouragement for the owners of the Asian Wall Street Journal.

INTERVIEW

The harsh light of Day

Hazel Duffy talks to Graham Day, Rover's abrasive charmer



Ashley Ashwood

"GRAHAM DAY? He's a dessicated calculating machine," says a shipbulidng trade union leader, borrowing the phrase Aneurin Bevan originally used to describe Hugh Gaitskell. "You can have a perfectly pleasant chat with him, but I think he looks at everything in purely arithmetical terms."

Day, the 53-year-old Canadian who heads the Rover group first made his name in Britain as troubleshooter at the declining Cammell Laird shipyard in Birkenhead in the early 1970s.

But it was the years between 1983 and 1986, when he ran British Shipbuilders, that earned him Mrs Thatcher's admiration and the appointment to Rover. During those years, he cut the losses at shipbuilding, sold off the warship yards for a better price than the Government had dared to hope, and presided over shrinkage of the merchant shipbuilding workforce from 17,200 to below 7,000.

Union leaders realise now that there was probably nothing they could have done to stop him, but they still think that he could have left the industry with more harmonious relations.

It is difficult to reconcile this characterisation of Day with the polite warmth—familiar, but not cringingly chummy—which he extends to the media, and, it is said, to ministers. "He weaves a web of charm around them", says an observer.

The conversation turns to Day's first corporate plan for Rover, submitted to ministers last December. He dismisses press speculation that he has asked for a £400m injection of funds. "The assumptions have all been remarkably wide of the mark. The talk about strategy has all been simplistic".

Then the resolve he has displayed in discussions with the unions, politicians and other managers breaks through quite unexepectedly.

"It's interesting that there have not been any leaks about the plan" he says. Is it true that he has threatened to sack anyone caught leaking information?

"Absolutely, and I'd sue for damages too, he replies without hesitation.

"I often say to people, I never lie and I never bluff. A couple of people tried that on me here. Quite senior people. They don't work here any more," he replies.

Day first came to work in Britain to run Cammell Laird, in 1971. He was 38. He must have been like a breath of fresh air in an industry weighed down with archaic management and union practices. He did all the things that might be expected of a North American returning to old country—eating in the canteen, starting work at the same time as the workers, even getting a cleaning lady to launch a ship.

But Day was not just image-building. He also managed his fellow managers as well as the workers. "We fired the finance director on the first day. I had asked him what the true cash position was. He said it was difficult to say, it would take him about three weeks to determine."

With the aid of a new finance man, he found that, technically, the company was insolvent and should not have been trading. He persuaded Christopher Chataway, the then Industry Minister (the company was by then half state-owned), to provide a £3m standby credit. "We never used it, but we had the assurance that we needed to enable us to carry on trading."

Day expects ministers to back him in the job he has been given to do. Equally, he says "It's important for the business for which I am responsible that they perform well. That means I am keen to make sure that they are fully briefed on issues where there is some sensitivity as well as where they have to make decisions.

"Take the fresh development contract announced with Honda for a mid-sized car in December — on the surface, straightforward. But it is Honda, there is speculation about what our relationship is with them. So I make sure ministres are properly briefed before the announcement.

"I tell the whole truth. I say that no minister of mine has ever been bounced in public by something which I did or failed to do".

In 1976, when the bill to nationalise shipbuilding was dragging through Parliament, the relationship between Day and his minister—Gerald Kaufman—was not so straightforward. Day was chief executive designate of British Shipbuilders. He gave up the job in November, seemingly frustrated at the political delays, while the industry's prospects were deteriorating almost daily.

Had he left because he knew the industry was high and dry and that the job therefore was not as he had originally envisaged?

"When I took the job on, I felt without a doubt that I could do the same for the industry as I had done at Cammell Laird," says Day. It took him just two months to change his opinion, and he now admits he should never have taken the job in the first place.

"There was no policy. There was only ideology he says." "It wasn't even a question of keeping alive as much of the industry as possible. The only thing was nationalisation. I remember saying what the likely prospects for the industry were, which were pretty horrific. In the event, my worst forecast was more optimistic than what has happened. But because they were horrific, nobody wanted to believe my forecasts.

"I believed that one would not have had the facility to manage the industry. I would have been minding the store, I would have been the front guy. I would have been unhappy with them and they would have been unhappy with me."

That, says Day, is why he negotiated guidelines with the Thatcher Government when he came back to British Shipbuilders seven years later. They worked "superbly."

"Whatever you or anybody else might think of the net result, one was actually able to manage the business."

When the nationalisation bill died in November 1976, he found himself a free agent.

● PERSONAL FILE

- **1933** born Halifax, Nova Scotia
- **1956** graduated in law, Dalhousie University
- **1964-1971** Canadian Pacific
- **1971-1975** Cammell Laird
- **1975-1976** deputy chairman, Organising Committee for British Shipbuilders
- **1977-1981** Professor of Business Administration, director Canadian Marine Transportation Centre, Dalhousie University
- **1981-1983** vice-president Dome Petroleum
- **1983-1986** chairman British Shipbuilders
- **1986**—chairman, Rover group

Day went back to his old university, Dalhousie, in Halifax, Nova Scotia. He had graduated as a lawyer from Dalhousie in 1956. Law was his second choice of career. His first was showbusiness, where he continued to earn "a chunk" of his living, a bit as a singer, mainly as a producer.

He practised as a barrister in a small Nova Scotia town but then came an approach from Canadian Pacific, which wanted him to join as a lawyer. He accepted, started work for CP in 1964 and gave up all his other activities to devote himself to the new job. "It came at a good time because I believed I had reached a point where I was doing more and more of the same thing and I wasn't growing. If you don't grow then you slide back.

"To work for Canadian Pacific, you were working for the country, not just earning a living," says Day. That idea is still important to him. "I want to feel that I'm doing more than earning a living."

Day's "troubleshooting" era had begun. He worked on "problems" at CP and learned about management. "The chairman at that time was a guy called Norris Crump, a born leader who always had the grace to say 'thank you'. In your early 30s, the fact that somebody in his mid-60s made an effort to say that when he didn't have to was a great motivator."

Crump retired. His successor died suddenly. The next chairman was not to Day's liking. "He was brilliant as a person, but a very bad manager. He failed to motivate people, to plan strategically. He operated in a very secretive way and told you only enough to enable you to do a specific job."

Day was sent to England to make sure that CP got the ships being built for them at the troubled Cammell Laird yard. He stayed on to run the show and left CP.

> His reputation among trade unionists has always been that of a tough man

Today, he feels more "comfortable" working in Britain — before coming back in 1983, he had had a further short and salutory bout of Canadian business life at Dome Petroleum, the big oil and gas company which hit serious financial trouble shortly after his arrival.

Could it be true then, that he came back to Britain because he did not have another job to go to? "Not so. I turned down a job in Canada, in the petroleum industry, which carried twice the salary."

Canada could again provide the exit route if Day's style ran against the grain of, say, a future Labour government. He met John Smith, the Labour spokesman on trade and industry, for the first time over lunch at the Longbridge plant recently, and found him "pleasant, witty, very articulate."

"At the Labour Party conference, before he had met me, he said—and I'm paraphrasing him—that unless I saw the error of my ways, perhaps I wouldn't be here under a Labour government. Saying things at conference is different to being a minister, but if he should be Secretary of State, then it's entirely up to him wether he wants me to stay."

Day has always had a reputation among trade unionists as a tough man—a view which has now extended to his managers. "Since his threat to sack anyone who leaked infotmation, they are frightened to death," says a shop steward at Austin Rover. "They don't tell us anything. He has met the national officials twice, but we have not seen him. As far as we are concerned, he's a Thatcher appointee and he maanges by edict."

FINANCIAL TIMES SURVEY

Monday, February 16, 1987

Electricity Supply

In Britain, electricity is winning an ever-larger part of the energy market. If the industry has its way, the nuclear element will be doubled by the year 2000

Blueprint for expansion

By Maurice Samuelson

IN THE midst of Britain's coldest winter on record, it would not have been entirely surprising last month if the lights and electric fires had gone out.

Besides disrupting public services, power-cuts could have disabled domestic cookers, kettles, washing machines and a host of other appliances while the controls on millions of gas central heating boilers would have also been affected, bringing widespread discomfort and danger.

Blackouts *did* occur in parts of South East England. But in most of the country, the only sign of strain on the system was the occasional flickering of the lights or when large factories, with legally interruptible contracts, were briefly disconnected.

Power supplies generally were maintained, however. Industry did not suffer seriously and most people in Britain watched the worst of the weather on television from the comfort of their armchairs.

In maintaining supplies, the UK electricity industry was meeting its obligations enshrined in its legislative framework. Even so, the simultaneous blackouts in large areas of France were a sobering warning that secure electricity supplies should not be taken for granted.

For several years, public interest in electricity has centred mainly on whether it should be generated by coal, nuclear power or other options now that oil has become too expensive as the basic fuel for most power production.

In Britain, this debate is about to gain a new, and decisive lease of life after the appearance of the long-awaited Layfield Report which gives strong backing for the Sizewell B Pressurised Water Reactor project.

If the electricity industry has its way, and a chain of four or five PWRs are constructed, the nuclear element will be doubled to 30 per cent by the year 2000, heading towards 42 per cent in 2020. Coal consumption may remain at about present levels, but that depends on continually rising electricity demand.

But although this demand is crucial to the planning of new capacity, the debate about coal and nuclear power is sometimes so heated that it obscures the importance of the electricity itself, and its role as an engine of growth and of technological and social change.

More primary fuel is consumed by electricity production than any other industry—some 35 per cent in the member countries of the International Energy Agency.

Electricity is moreover winning an ever-larger part of the energy market: its penetration of the final user-market is expected to grow from about 15 per cent in 1983 to almost 20 per cent in the year 2000.

In the IEA countries, comprising the leading non-Communist industrial States except France, 42 per cent of electricity is used by industry, 32 per cent in home-heating and—the fastest growing sector—24 per cent in commercial and public buildings.

In Britain, where demand is growing faster than planners had earlier expected, the last four years have seen steadily rising sales, compared with the successive falls of the three preceding years.

Sir Philip Jones, chairman of the Electricity Council, embracing the 12 area boards of England and Wales as well as the Central Electricity Generating Board, attributes this to the "increased attractiveness of electricity" and to successful marketing efforts—and not simply to industrial recovery.

"We now have a plan for growth, backed by our sales engineers in all areas," he says, predicting that electricity's share of the energy market will go up from 14 per cent to 17 per cent by 1992.

The biggest growth has taken place in domestic off-peak consumption as well as in shops and offices. Last year, domestic sales grew 4.6 per cent, commercial sales 7.2 per cent and sales to industry 4.3 per cent.

The off-peak domestic sales are marketed under the Economy 7 scheme, which enables consumers to pay less than half the standard rate by charging up its storage heaters and using washing machines outside the peak consumption hours when marginal electricity is dearest to produce.

The Council claims that it is now cheaper to heat properly-insulated terraced houses by electricity than with gas-fired central heating. With the trend towards smaller houses, it claims that electricity is now cheaper than gas in more than 80 per cent of new homes.

The trend is mirrored in the sales of storage heaters which have risen steeply and steadily from 359,000 a year in 1982 to 990,000 last year.

The electricity industry, and the appliance manufacturers, make no secret of their intense rivalry with gas. Four years ago, this led to an outbreak of "knocking advertising" between the conflicting interests.

This open warfare has been replaced now by a more sophisticated form of competition. But with British Gas firmly in the private sector, electricity needs to sell itself more effectively and commercially than ever.

A foretaste of this new mood was in the corporate advertising campaign, launched last March, proclaiming electricity as "the energy for life." It coincided with the start of the gas industry's blockbuster sales of shares to the nation.

But with electricity still a state utility, it is hardly a contest of equals. Even after the sell-off of the British Gas Corporation, complaints are heard in electricity circles that although gas is no longer selling at a loss, its price is still too low.

The electricity industry's prices, on the other hand, depend largely on the financial target set by its sole owner—the Government. Its present three-year target, which ends next year, is to earn 2.75 per cent on net assets, judged by current cost accounting.

The Council sees this as reasonable, but Treasury pressures to raise its profits and prices still further—as a possible prelude to privatisation—might have the counter-productive effect of blunting its competition with gas.

Privatisation depends primarily, on the outcome of the next general election. But it would arouse many complicated issues which even a strong new Thatcherite Government would have to unravel with care:

- Would public opinion agree to see nuclear power stations, with all the attendant safety concerns, delegated to private operators ?
- Nuclear plants might remain under separate public control in a nuclear rump of the CEGB. But if they produce the cheapest and most profitable electricity, who would want to buy the less profitable stations ?
- What about British Coal, 80 per cent of whose output goes to the CEGB ? A truly independent electricity sector would surely be free to import coal, regardless of the effect on the British coal industry.

Regardless of how such questions are settled, the prospect of privatisation further highlights the chronic uncertainties about the public structure of the electricity industry.

The International Energy Agency, for example, singles out the need for greater co-ordination as one of the industry's three priorities—the others are to promote energy efficiency and to expand its nuclear capacity. It lacks central co-ordination, says the IEA.

Since the Herbert report of the late 1950s, the industry has evolved into a loose, uneasy federation of 12 area boards (which handle sales and local distribution) and the giant CEGB, which produces the electricity and distributes it through the main arteries of the National Grid.

Although the system has worked well from the technical viewpoint, as exemplified in the lack of power cuts during the miners' strike as well as this winter, it has proved politically cumbersome.

The chairmen of its area boards stubbornly resisted the recommendations of the Plowden Report in 1973, which would have broken up the areas and created a unitary electricity corporation, analogous to British Gas.

Although, at the time, the industry promised that it would conduct itself with greater coherence, the Council sometimes resembles a squabbling College of Cardinals, and there is a growing view that this can be altered only as part of privatisation.

But even without privatisation, integration has been taking place—both within the CEGB and in aspects of the Electricity Council's work. As of this year, the CEGB has been radically restructured along functional and operational lines, rather than regions.

This reflects its changing physical profile, as it produces electricity from fewer but larger power station sites.

There is also a slow but signi-

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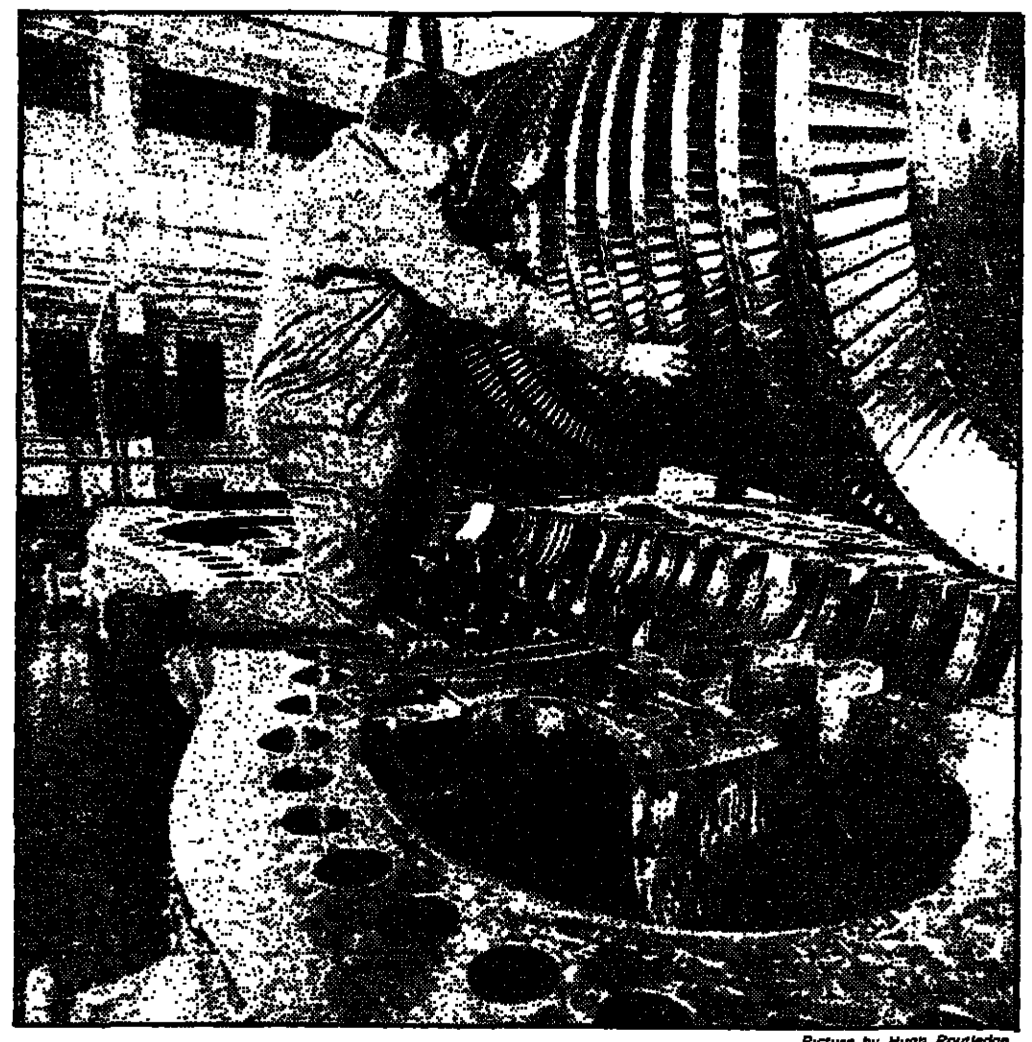
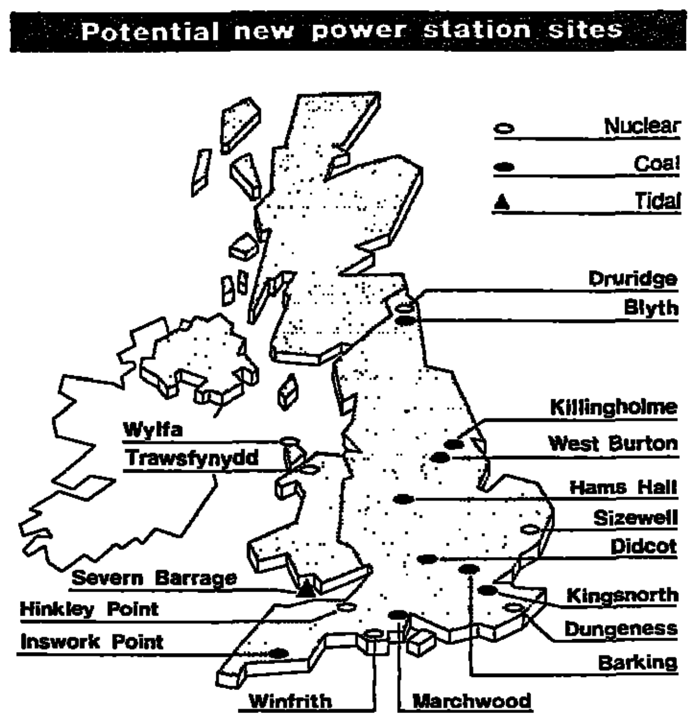


Picture by Hugh Routledge

British-made turbine generators being checked at the GEC plant at Rugby for the Castle Peak power station in Hong Kong.

Potential new power station sites



Source CEGB

Blueprint for expansion

Continued from Page 1

ficant trend towards integration with other electricity networks, as illustrated in the newly completed 2,000 MegaWatt cross-Channel "interconnector" between the CEGB and its French counterpart, Electricite de France.

Britain's electricity is now plugged in not only to the French grid but to Western Europe as a whole. The link, originally envisaged merely as a mechanism for swapping power at the two countries' different peak consumption times, has now become one of the instruments for exporting cheaper French nuclear power to its neighbours.

In this year's exceptional conditions, these cables were part of the thin steel line which helped Britain to keep power cuts at bay.

But they are no substitute for the new power stations—whether nuclear- or coal-fired—which have to be built to replace ageing plant and the steady growth in demand for electricity.

When that decision is taken, it will stimulate important manufacturing sectors, starved for too long of major domestic orders. It will provide one more reminder of electricity's importance to the economy as a whole.

Maurice Samuelson

UK investment

Dilemma over private capital

THE BRITISH Government is now faced with a difficult dilemma in its discussions about the relation to the electricity industry. On the one hand it would like to push ahead with the development of nuclear power—if public opinion allows. On the other hand it is committed to introducing private capital into the industry if it wins the next election.

The two ambitions are not obviously in conflict. In Japan, West Germany and the US, privately-owned electricity utilities have built and operated nuclear reactors, with great success in some cases. However, in the US, many utilities are now finding previous efforts to build nuclear reactors have become a major embarrassment, and in some cases threaten disaster.

There are many reasons for the failure of nuclear projects. They include poor project management, design errors, the success of anti-nuclear lobbyists, late changes in design imposed by the nuclear inspectorate, poor siting, and the refusal of some US regulatory commissions to allow utilities to pass on the whole cost of nuclear developments through tariff increases.

These failures and disappointments of the nuclear programme in the US have pointed to a common theme. Utilities which embark upon a nuclear programme need to be able to provide their own high quality management, both in the construction phase and then afterwards to maintain the rigorous training and safety standards which are now demanded.

They also need to be financially strong and large enough to take the risk of betting a very large amount on a single horse.

Since the accident at Three Mile Island in the US, private utilities have also been forced to take on a large political risk if they wanted to proceed with nuclear power. In West Germany particularly, there has been strong and militant opposition from environmentalists who have mounted some fairly effective direct-action campaigns.

Now, after the disaster at Chernobyl in the Ukraine last April the political risk has taken on a new dimension: opposition parties in West Germany and in the UK are pledged not merely to scrap plans to build new nuclear plant, but are under strong internal pressure to phase out stations already working.

Since arrangements for compensating a private utility would probably be inadequate and would certainly be messy, any private company would have to think very carefully indeed before starting on a new nuclear building programme.

In the US, no nuclear power stations have been ordered for without cancellation since 1973. The political uncertainty is one of the major reasons, although the US regulators' refusal to allow capital costs to be reflected in tariffs until the station is in commission has also been a powerful disincentive.

Even the very different experience of Japan's large electricity companies points in the same direction. Japan's large utilities are big enough to have the engineering and financial muscle to carry the projects through successfully, and they have been operating in a more stable political environment, where opposition to nuclear power has been muted by the knowledge that Japan is very short of alternative energy sources.

Any private company would have to think very carefully indeed before starting on a new nuclear building programme.

In Britain, therefore, a future Conservative government would have to start from the fact that the Central Electricity Board does have the financial strength and expertise necessary to carry through a nuclear programme, even though its record so far has been tarnished by failures, some poor management and indecision, aggravated, it has to be said, by a lot of political interference.

Now that Sir Frank Layfield has recommended after a four-year enquiry, that plans to build the first of a new generation of Pressurised Water Reactors at Sizewell B in Suffolk should go ahead, the way is clear for the CEGB to make a new start. At the time of writing, the Government's final decision is not known, although it certainly would like to push ahead with the project in the parliamentary debate and electoral considerations raise no serious obstacles.

However, it is also clear that a CEGB which was being dismantled to be sold off in pieces would not be the best organisation to go ahead with Sizewell B and to plan a series of three to four follow-on stations.

One option would be to retain a large central generating company either in public or private ownership to plan and run nuclear power stations. However, this would create a lopsided structure with many potential problems. The company charged with the development of nuclear power would be exposed to unacceptable commercial risks unless it also included a significant amount of conventional generating capacity.

Since nuclear plant in existence or being commissioned will account for about a quarter of total generating capacity, this new company would probably have to have around half the UK's generating capacity under its control.

This would be a very big company, with power stations spread all over the country. It would probably need to control their transmission network, because commercial decisions about the siting of new power stations cannot be disassociated from the cost and feasibility of building new transmission lines.

Since fierce planning objections can be raised in either case, it would be very difficult for two companies to agree the risks and rewards appropriate to any investment decision.

The logic then points overwhelmingly to retaining a central generating company in charge of nuclear developments, the national grid and probably with a large capacity of coal and oil-fired plant. If it were a private company, it could well see large potential rewards for taking on the nuclear risk, since nuclear power is supposed to be cheaper than the alternatives. However, it would need strong cash flow from existing power plant to be able to take on 10-year investment projects of around £1.6bn.

Whether or not this large central company were privatised it would be in a dominant position in the industry, so that selling off smaller parts would be much more complicated than a large single flotation as in the case of British Gas or British Telecom. Certainly it would be difficult to ensure that there was fair competition under such a structure.

A further question remains as to what should be done about the Area Boards, which in their present form have hardly any characteristics which fit them for the private sector. They are monopoly suppliers of electricity, obtaining their power from a monopoly CEGB, with a rather curious arrangement by which the Electricity Council nominally controls the CEGB, but in operational terms has rather little power.

If the Area Boards were privatised the tariffs at which they sold electricity would have to be regulated and the tariffs at which they bought power would have to be regulated so long as the CEGB or its successor remained dominant.

The introduction of credible competition into the generation of power would therefore be very difficult, although not impossible. The board might be made into regional power companies with generating capacity of their own, but it would be difficult to arrange a fair distribution of plant between them as between say modern coal-fired plant and oil-power stations, which are not likely to be run continuously for base load unless the oil price plummets again.

Another option might be to set up competing power generation companies which would create a market for supplies minute by minute with the distribution companies and large corporate customers as bidders.

This would certainly be possible, as the US system suggests, but such a radical break up of the system would probably take a long time to negotiate. Even when it was ready for sale, the Government would have to balance the disturbance, not only against its strategic wish to develop the nuclear option, but against the need for a fairly major ordering programme over the next 25 years.

It is now generally accepted that eight to ten new power stations will be needed before the end of the century to replace those that are retiring and to cope with increased demand. After the year 2000, the number of big power stations due to retire increases, even if one assumes that their useful lives will be extended.

Although in theory this major capital development could be left to the market, it is not by any means certain that in an imperfect market the desire of private companies to invest would, in aggregate, match the national need. Much would depend on the incentives and the precise balance which regulations strike between protecting the interests of consumers and the need for profit.

The introduction of credible competition into the generation of power would be very difficult, though not impossible.

The strategy of least risk would unoubtedly be to leave the CEGB structurally intact with perhaps some forced disposal of assets if a way could be found to encourage a credible competitor roughly analagous to Mercury's position vis a vis British Telecom.

Privatising the remaining assets would be an enormous task even in comparison with the selling of British Gas. In current cost terms, the whole industry's assets are put at £37bn, more than four times the capitalisation of British Gas when it was sold and getting on for five times the Government's annual sales of gilts.

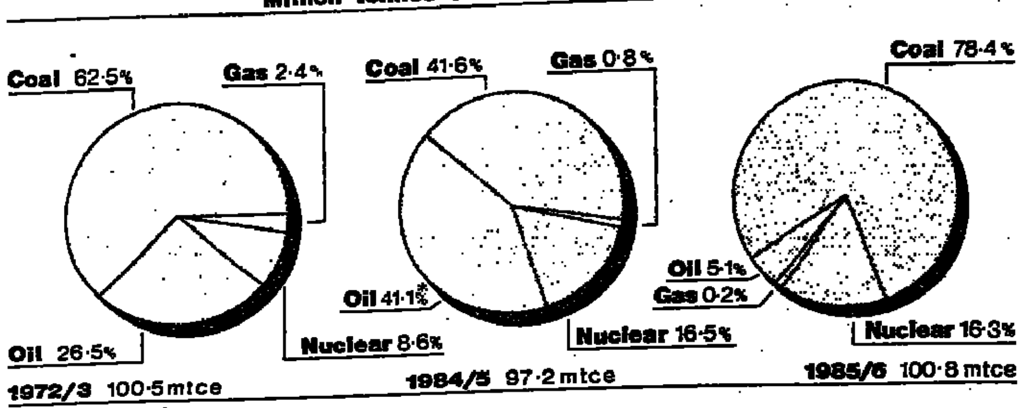
Even though the market capitalisation of privatised electricity would probably be lower, it would still be a formidable structure to float intact.

However, for most ministers, all this remains a problem for the future. Their first problem is to win the election.

Max Wilkinson

Fuel consumed in UK power stations

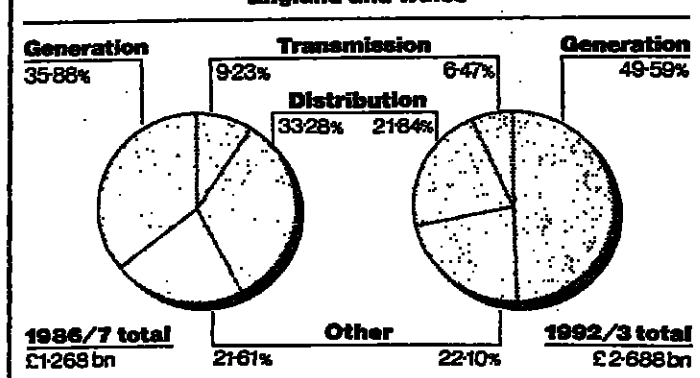
Million tonnes of coal/coal equivalent



Pre oil price rise
* During miners' strike

Capital expenditure

England and Wales



Source: Electricity Council — Outturn prices

Capital Requirements

Electricity supply industry in England and Wales
£ million (Out-turn)

	1986/87	1987/88	1988/89
Expenditure on fixed assets	1268	1338	1387
Working Capital:			
Stocks and work in progress	50	36	46
Corporation Tax	(−) 86	(−) 597	(−) 68
Other	(−) 206	62	11
Total	1026	839	1376

Source: Electricity Council

New industrial applications

Strong emphasis on efficiency

THE UK's electricity supply industry frequently denies that it is looking forward to an "all-electric future."

Such disclaimers are only natural in a country where gas is the principal form of heating, and which is also endowed with rich reserves of coal and oil. Although electricity is also capable of propelling motor vehicles, such a development is still largely a curiosity whose day has not yet come.

But all-electric buildings are commonplace, and electricity is increasingly challenging the place of other fuels in industrial processes. These advances, coinciding with the rise of the microprocessor, have been accelerated by the energy crises of the 1970s and determination that future energy shortages will be less damaging.

This explains the deep involvement of electricity industries in national energy efficiency campaigns, such as the Energy Efficiency Year, sponsored by the British Government last year.

The electricity industry, together with the other utilities and equipment manufacturers, played its part in keeping the campaign in the public eye, despite the disarming effects of the fall in oil prices.

It did so in a wide range of initiatives aimed at the broad spectrum of electricity users.

Least noticed, but perhaps most influential, is the work of Electricity Council scientists on new ways of using, as well as distributing, electricity. Their work at the Capenhurst research centre, near Chester, has brought breakthroughs in a wide range of processes, especially in the application of heat to metals.

In the first years after the centre was opened 21 years ago, Capenhurst concentrated on reducing energy costs of the iron and steel industry, including the development of electric arc furnaces and the use of electricity in iron foundries. In the 1980s, the emphasis has switched towards helping non-ferrous foundries melting metals such as aluminium.

Capenhurst has also been in the forefront of work on heat pumps, which in recent years have become firmly established as cheap heating or cooling plants in offices, shops, restaurants and hotels. They use the same basic technology as the domestic refrigerator to offer energy-saving cooling, heating or the extraction of moisture from the air.

The domestic storage heater has also benefitted from Capenhurst's efforts, with the development of feolite, a highly efficient heat storage heating material. Feolite, which occupies 30 per cent less space inside the appliance than the heat retaining materials previously used, is now incorporated in 90 per cent of the night storage heaters which have spearheaded electricity's blitz on the home heating market.

In parallel with the work of its backroom boffins, the electricity industry conducts a series of high profile award schemes to encourage adoption of the latest technologies by industry and in homes and public buildings.

PEP—Power for Efficiency and Productivity—is an annual competition targetted at industries. Companies are invited to compete for awards by demonstrating savings through adoption of electrical technology.

In its first three years, the PEP scheme has identified 84 winners, out of 1,175 applicants. Many entrants, the Council says, have more than halved energy costs by switching to electricity.

The winners, selected from the 12 area Boards in England and Wales, have made annual savings totalling £6.3m in energy and raw materials. Total investment for these projects amounted to £9.3m, giving an average payback of about 18 months.

Last year, the first prize for companies with fewer than 200 employees went to Lennox Foundry, of Greenhithe, Kent, which cut its energy costs by 80 per cent when switching from oil to electric melting.

Peugeot Talbot, winner of the first prize for larger industrial sites, had a four-month payback by installing infra-red electric paint curing instead of a gas-fired process.

Dow-Mac Concrete of Stockton-on-Tees was the runner up in the small company category. It had cut energy costs by 60 per cent by applying electric heat to concrete railway sleepers instead of "curing" them by steam.

West Yorkshire Foundries of Leeds, runner up in the big company competition, had also switched from a gas to an electrical system to cut its energy costs by 54 per cent, metal losses by 85 per cent and maintenance costs by 50 per cent.

In all the schemes, the switch to electricity was carried out in close collaboration with sales engineers of local electricity Boards.

Last year, the Electricity Council launched a second award scheme, called Beta, to underline the savings possible in buildings. Its first winners were the new international terminal at Luton Airport and a small Welsh building which investigates drug therapies.

The airport building, built over the original terminal while business continued as usual, incorporates heat retrieval systems with a running cost 34 per cent cheaper than the building it had replaced.

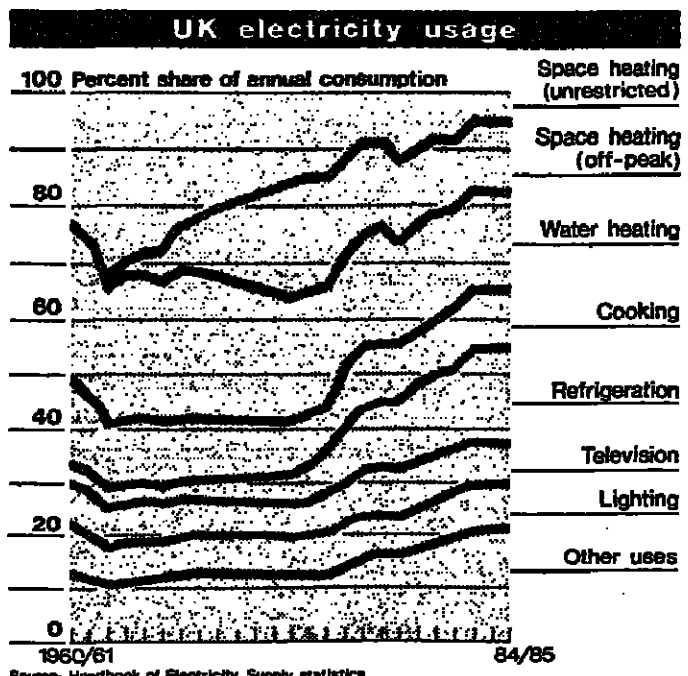
At Simbec Research, Merthyr Tydfil, running costs were cut by more than 29 per cent through the provision of storage fan heaters fitted with weather sensitive controllers for the wards and offices.

The adoption of efficient lighting systems has been encouraged for the past 12 years by EMILAS, the Energy Management In Lighting Award Scheme. It is calculated that applicants for the scheme are now saving nearly £7m a year and enjoying better quality lighting.

There are three award schemes for houses. More than 100,000 new private homes have been committed to the Medallion Award scheme introduced in 1976 and 60,000 homes have qualified for the Civic Shield Award for public sector housing. Prizes for existing homes are offered under the Council's Energy Wise Home Scheme.

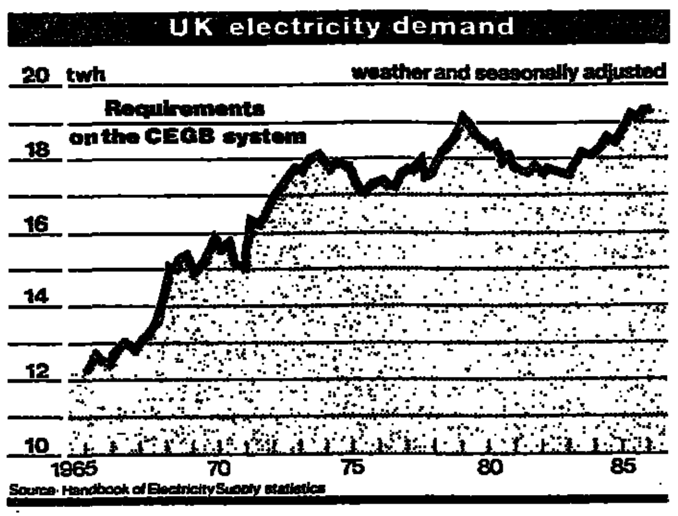
Maurice Samuelson

UK electricity usage



Source: Handbook of Electricity Supply statistics

UK electricity demand



Source: Handbook of Electricity Supply statistics

Industrial relations

History of relative harmony

FEW, IF ANY, sectors of the trade union movement boast such industrial muscle as the power workers. Equally, there can be few areas of British industry that can claim a history of relative industrial harmony with such assurance as the Electricity Council, the umbrella body responsible for supply and generation.

Under the inspiration of Lord Citrine, the entity's last chairman, and the terms of the 1948 Electricity Act (amended in 1957), the Council led the field among the post-war nationalised industries in providing a sophisticated machinery for the conduct of industrial relations and covering all aspects of pay, conditions and employment.

The machinery is highly complex but it was originally set up with the intention of defusing possible areas of tension within the industry. Its main planks are the four separate bargaining groups representing the various unionised grades of employees, ranging from the blue collar manual workers to about 1,200 senior managers.

Within the Council only 150 top directors are excluded from having their terms negotiated collectively.

The Council takes pride in the high proportion of unionisation among its staff and the multiplicity of unions within the sector (the main unions represented are the EETPU, the Transport and General Workers Union, the General Municipal and Boiler Makers Union, the AUEW, Nalgo, Apex and Epea). The long-established machinery includes: the National Joint Negotiating Committee which determines matters of common interest to more than one negotiating group and within each group, is the power of veto over a subject being discussed.

The Council believes that its machinery has remained well understood by all the sides involved and that the multiplicity of unions has effectively translated itself into a balance of power. Both factors have contributed to stability on the industrial front in the past.

On paper, the record is certainly impressive. By the beginning of 1987, the only time since World War Two that the industry had suffered major industrial action was in December 1970, when a ban on overtime led to a considerable disconnection in supply. Since then, there have been flurries of industrial action but, with the exception of a one-day stoppage in the mid-1970s, they have been of an unofficial nature.

During the miners' strike, the Council's industrial relations record was put to its severest test in many years when power workers came under considerable pressure—from their more militant colleagues in the National Union of Mineworkers—to cut off supplies. Some power workers were strongly sympathetic to the miners' plight and staged unofficial occupations of power stations.

In general, however, all the unions in the electricity supply industry refrained from industrial action throughout the dispute. The Council believes that the unions survived their test with flying honours.

"It proved how well motivated and cohesive our workforce is," says the Council.

Last year the manual unions won a mandate of more than two to one for industrial action in a secret ballot under the provisions of Mrs Thatcher's Trade Union Act. The unions began by rejecting an improved offer worth 6.2 per cent on basic rates which the Electricity Council had described as "fair and reasonable."

Significantly though, the unions showed from the outset that they learnt the lessons of the miners' dispute by seemingly being determined to retain as much as possible what public support they had.

Because the unions believed the industry had spare generating capacity, they fel that by targetting on the top II stations—principally the string of stations along the Trent valley in the Midlands—there would be no power cuts. Instead, the industry would be forced to switch to more costly forms of supply.

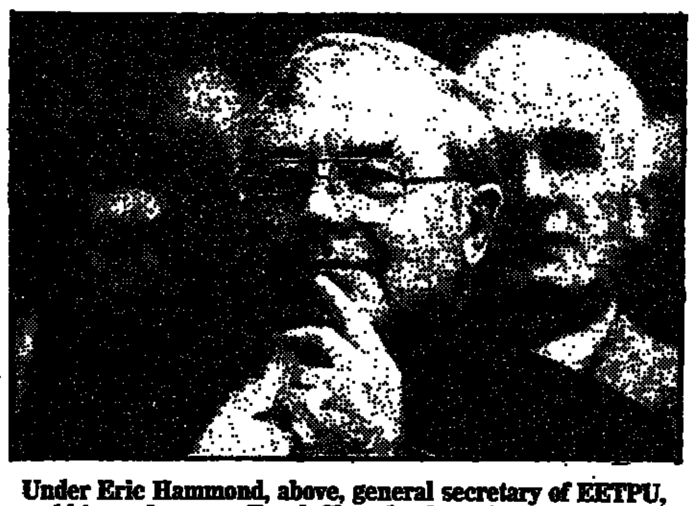
The strategy, as it was initially mapped out, was based on the premise that the fall in oil prices had made the larger, more efficient stations even more cost effective and that therefore the industry would be forced to use the more costly coal-fired units again.

As events turned out, however, Mr Eric Hammond, the general secretary of the EETPU, one of the principal supply unions, strongly urged against an industry-wide work-to-rule by power workers—the tactic adopted in 1970 and which led to the Wilberforce Inquiry and substantial pay increases.

Subsequently, the threatened action was called off, with the unions recommending the improved pay offer after the dispute had been taken to the Advisory, Conciliation and Arbitration Service.

The process by which the threatened dispute was defused highlighted the important role which Acas can play within the Council's industrial relations machinery. The Council's Joint Co-ordinating Committee—with alternating chairmen drawn from the management and the unions—provides the opportunity to discuss those subjects such as nuclear power that have traditionally fallen outside the annual round of pay talks but which might provie controversial.

But, in addition, Acas provides an important safety valve. It can arbitrate if both sides are in agreement that it should. In last year's talks, however, Acas was empowered to conciliate.



Under Eric Hammond, above, general secretary of EETPU, and his predecessor, Frank Chapple, the union has clinched enlighteninging productivity deals.

The outcome of last year's talks also underlined the important role played by the more moderate unions headed by the EETPU in keeping their members in check. Indeed, the history of industrial relations within the Council cannot be properly understood without taking into account the development of the EETPU as the crusader of a "new realism" within trade unionism.

Under both Mr Hammond and his predecessor, Frank Chapple, the EETPU have clinched enlightened productivity deals encouraging their members to embrace new technology and changes in traditional working practices. But the EETPU's explicit rejection of class-based industrial conflict in favour of mutually beneficial co-operation may face strains in the coming weeks.

In 1967, the then-chairman of the Council declared as an "anachronism" the fact that the manual worker was treated as slightly different and inferior to his colleagues in clerical, administration and technical grades.

Twenty years later, however, both management and unions privately agree that the inspiration behind the single status agreements of the 1960s has been difficult to sustain.

The Council's declared medium-term policy of insuring the "proper utilisation of craftsmen, foremen, engineers and clerical staff at the interfaces between engineering, industrial and clerical staff" was put on the back burner after last year's threatened dispute. But union officials warn that it is an issue that is smouldering below the surface and capable of blowing up any time.

The Council's medium-term development plan, published towards the end of last year has one eye on the prospect of privatisation after the next election. It shows the entity's determination to deepen and extend its transformation into a power horse of the economy towards the end of the century.

It wants to have an "effectively motivated, high productivity workforce of the right size and mix of skills." It remains to be seen whether it will succeed in reconciling the interests of its employees with an emergent corporate structure, without encountering some of the problems faced by BT.

Jimmy Burns

Plant/Equipment

New orders will go to the survivors

MANUFACTURERS OF power generation equipment are looking for one thing right now—and that is an upturn in the deeply depressed rate of new power station ordering around the world.

Worldwide ordering was running at 35,000MW at the turn of the decade, but demand has been limping through the past several years at between 8,000 and 17,000MW a year. Last year it was 10,000MW and expectations are for 17,000MW this year.

Many companies expect the position to improve substantially towards the end of the decade and work through into the next century as a large number of Western countries need to begin major replacement programmes.

Meanwhile, many of these companies are having to survive as best they can, rationalising and reducing workforces to reduce cost-bases.

The picture is by no means uniform. Big Japanese producers such as Mitsubishi, Toshiba and Hitachi have had an expanding and heavily protected Japanese domestic market to rely on and to use as a base from which to raise their market shares outside Japan.

For example, between 1981 and 1986, these three companies, helped by generous government-funded finance packages on offer to customers, raised their share of the total worldwide export market for turbine generators to 30 per cent. They fill three of the top six slots in the producer league.

Recent large scale building of nuclear stations in the US and substantial overcapacity in power generation there means that ordering of new stations has shrivelled up in North America.

In the UK, producers such as GEC, Northern Engineering Industries and Babcock have faced a situation in which there have been no domestic power station orders since the late 1970s. This position will change dramatically over the next few years as decisions are taken on the Sizewell B station and the first of a series of coal-fired stations.

Despite this dearth of domestic orders, GEC Turbine Generators has launched out into the export market with a vengeance. According to British Government figures, the company's 5.1 per cent share of the 1970-75 world export market rose steadily to 12.5 per cent between 1981 and last year.

US contractors have faced a very lean time on the domestic front, with a dearth of orders from the early part of the decade.

Babcock and Wilcox shut its biggest boiler manufacturing site in the US a few years ago. Westinghouse sold its distribution switchgear division to Siemens and both it and General Electric, the other major US power station contractor, import some transmission switchgear from Japan.

Switchgear equipment, however, demonstrates this lack of uniformity. There is, for example, less over-capacity in the UK and elsewhere for high voltage transmission gear than for lower voltage distribution equipment.

Continental Europe has a number of major manufacturers of power station plant, such as Brown Boveri, Siemens and Alsthom. The French sector has gone through the nationalisation and renationalisation hoop while companies such as Steinmuller, the West German boiler maker, have faced some financial restructuring.

Makers of generating sets are not locked into the global power station ordering programme but these companies, too, have been forced to contend with shrinking demand and overcapacity.

During the past four years the total exports of diesel-powered sets from industrialised countries fell by 43 per cent. The UK has done better in recent years than almost every other producing area. Its exports during the same period fell by only 25 per cent.

Many of the major manufacturers of big power station plant, however, think that they are now at the trough of demand and that things will start improving soon. One exception might be Japanese producers whose domestic ordering programme is turning down. US producers will also continue to be affected by a dearth of new domestically-santioned stations, since a lot of nuclear capacity was ordered there in the 1970's and will not need replacing for many years.

Mr Ron Campbell, managing director of Babcock Energy in the UK, says though that many other countries have the same ordering pattern as Britain—over-ordering in the 1960's which means that a lot of capacity will soon be coming up for renewal through the 1990's and into the next century.

That is why many companies such as Babcock believe that, in the medium-term, they will be employing more people than they do now.

Nick Garnett

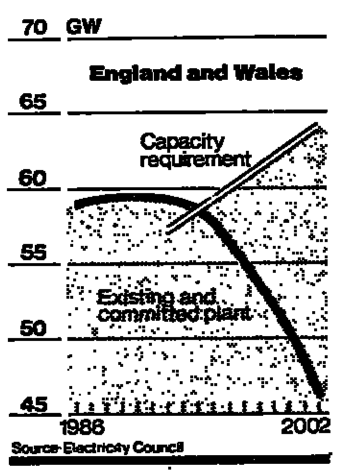
Export leaders

1981—January 1986

	Total export orders MW	Share of total export market %
Mitsubishi	12,900	14.0
GEC	11,500	12.5
USSR	8,700	9.5
Toshiba	7,800	8.5
KWU	6,900	7.5
Hitachi	6,800	7.4
General Electric	6,400	7.0
Comecon (other than USSR)	5,100	5.5
BBC	4,600	5.0
Westinghouse	4,600	5.0
MAN	4,000	4.3
Alsthom	3,000	3.3
NEI	2,500	2.7
Tosi	2,100	2.3
Ansaldo	1,800	2.0
Others	3,200	3.5
	91,900	100.0

Source: CPRS report

Generating capacity



Source: Electricity Council

Nuclear power

Layfield: powerful boost for the PWR

IF THE nuclear industry had written its own report, it would not have done it so well, was the general view of the Windscale report published in 1978. The same might be said of the report of the Sizewell B public inquiry, published last month, four years after the inquiry opened in January, 1983.

This inquiry examined the plans of the Central Electricity Generating Board for its first pressurised water reactor (PWR), a type Britain has been building since 1959 for the Royal Navy but which had not previously been used in the electricity supply system.

Advocates of every conceivable alternative to nuclear energy—coal, windpower, wave power, tidal energy, combined heat and power schemes—as well as advocates for simply doing without more electricity capacity presented their arguments at length before an infinitely patient Sir Frank Layfield QC.

If Sir Frank, as inspector, thought that something was in danger of being understated, he summoned witnesses himself. He did this, for example, with the advanced gas-cooled reactor, the CEGB's present nuclear system, to make sure it was not getting a raw deal in CEGB enthusiasm for changing to the PWR.

Again, he called for independent advice on the CEGB's plans for managing the £1.55bn Sizewell B project, once he recognised that any delay in construction could seriously affect the cost.

In each case he found a witness with special qualifications. In the case of the AGR, it was Mr Donald Miller, chairman of the South of Scotland Electricity Board, which has made no secret that it opposed the idea of changing to the PWR, believing that this could damage its own interests in the AGR.

In the case of project management, his choice was Sir Alastair Frame, chairman of RTZ, and an engineer with undisputed experience in managing major—including nuclear—projects.

The worst the Layfield report says about Sizewell B is that it will be a "massive intrusion" into an area of outstanding natural beauty. So, of course, is the present A station at Sizewell, construction of which began in 1960.

Sizewell B would be a massive intrusion into any part of Britain during its construction phase, and will certainly be conspicuous throughout its operating life. The local community have lived with this knowledge since 1974 when the CEGB was given permission to build another 2,500 MW of nuclear capacity on the site.

What can be said confidently is that, visually, the intrusion of the Sizewell B PWR station will be less than for any alternative kind of nuclear station, especially the gas-cooled kind, which must encompass a much bigger volume simply because it uses a less dense and hence less efficient coolant than a water-cooled reactor like the PWR.

But the issue which, above all, worried those who objected to Sizewell B is safety. The inspector himself makes the point clearly in saying that any serious grounds for doubt on this score would have sufficed for him to recommend that planning consent be withheld.

He identified a dozen "main contentions," compared with only 11 for all other issues concerning economics, environmental intrusion and nuclear weapon proliferation.

He deals with the dozen contentions raised on safety in great detail and rejects every one. While acknowledging that he is placing a great deal of reliance on the CEGB and the Nuclear Installations Inspectorate to provide continuing assurance of safety, he pays a handsome tribute to the quality of their evidence on safety at his inquiry. Both, he said, demonstrated impressive technical competence and he could find no significant shortcomings in the safety case.

He reached the conclusion that "there should be good confidence that Sizewell B, if built, would be sufficiently safe to be tolerable, providing that there is expected to be economic benefit sufficient to justify the risks incurred."

Objectors, however aggrieved at the rejection of their assertions, will find it hard to dispute the substance of Sir Frank's painstaking safety analysis. They may find it easier to focus on economics, since so much depends on the underlying assumptions, for example about fluctuations in the price of fossil fuels over the expected 40-year lifespan of the project.

Nevertheless, the conclusions he reaches are very robust. The important point is not that the PWR looks more attractive than the AGR, but that it looks so much more attractive than coal that it is difficult to see how the British electricity industry can justify plans for more coal-fired capacity.

Even though some of the pessimism of the CEGB about its AGRs was disallowed, Sir Frank still finds it most unlikely that this system could make power as cheaply as the PWR. He gives it only one chance in five.

Moreover, the CEGB believes that the second and third PWRs would be much cheaper to build.

But he gives a coal-fired station only one chance in 40 of working out cheaper than the PWR. On all but the most extreme assumptions, the PWR is the cheapest way available to the CEGB of adding to its generating capacity. The inspector also accepts the industry's arguments about growth in demand and the need for new capacity on-line by the mid-1990s.

None of the "benign and renewable" alternatives to fuels as sources of CEGB power—wind, tides, etc.—are considered to compete in the same league. In any case, none of them can deliver "firm power" in the sense that the industry can depend upon it round-the-clock. Wind and waves, for example, generate power for only about one-third of the time.

If the Government gives its approval for the Sizewell B PWR, Britain will be joining the mainstream of nuclear power worldwide. The US, where the PWR was invented, has 105 water-cooled reactors licensed for commercial operation, and over 1,000 reactor-years of operating experience.

It is often said by opponents of nuclear energy that the US has ordered no new nuclear reactors since the accident to a PWR on Three Mile Island in 1979. In fact, neither has Britain. But both have been very busy bringing reactors already under construction into operation. Meanwhile, over 30 more PWRs have been ordered in the Western World and Japan since the accident.

The US claims to have generated more nuclear electricity than any other country—405bn kilowatt-hours.

By 1990, when it expects to have licensed all nuclear plant under construction, it expects to get 25 per cent from this source. This will be the same proportion as Britain, but for a much bigger country where both coal and oil in some locations provide power much more cheaply than uranium can do today.

In Europe, several countries already greatly exceed the 25 per cent expectation of Britain and the US. France is claiming a figure as high as 76 per cent. Belgium, Sweden, Finland and Switzerland all have high proportions, 40-50 per cent.

What, then, of the Chernobyl factor? This explosion last April came uncomfortably close to the "maximum credible accident" that professional Cassandras have been trying to envisage, except that only 31, not thousands, were killed.

Sir Frank Layfield has been accused of ignoring Chernobyl. It is certainly true that the accident occurred after the inquiry ended, and short of re-opening what had already been the longest of British public inquiries, its implications could not be analysed. The important question, however, is whether Chernobyl should have been raised.

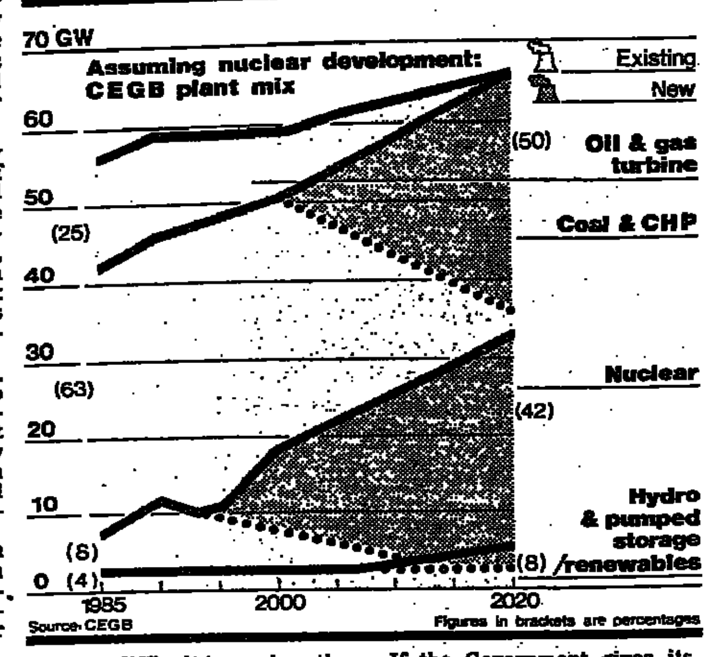
The inquiry was examining the case for a specific project, the "British PWR" as planned for the CEGB's Sizewell B station. Safety of this PWR was the over-riding issue, with economics and environmental intrusion as lesser issues. It did not examine the safety case for any other kind of reactor, even for the AGR, which it identified as a possible competitor.

Events at Chernobyl concerned a uniquely Soviet type of reactor, unknown outside the USSR, as Soviet nuclear experts testified unambiguously at the "post mortem" in Vienna last August. They went so far as to admit that this reactor was grossly unsafe by Western nuclear safety standards, but kept in check by a rigorous code of written instuctions. These instuctions were simply allowed to lapse on the fateful night.

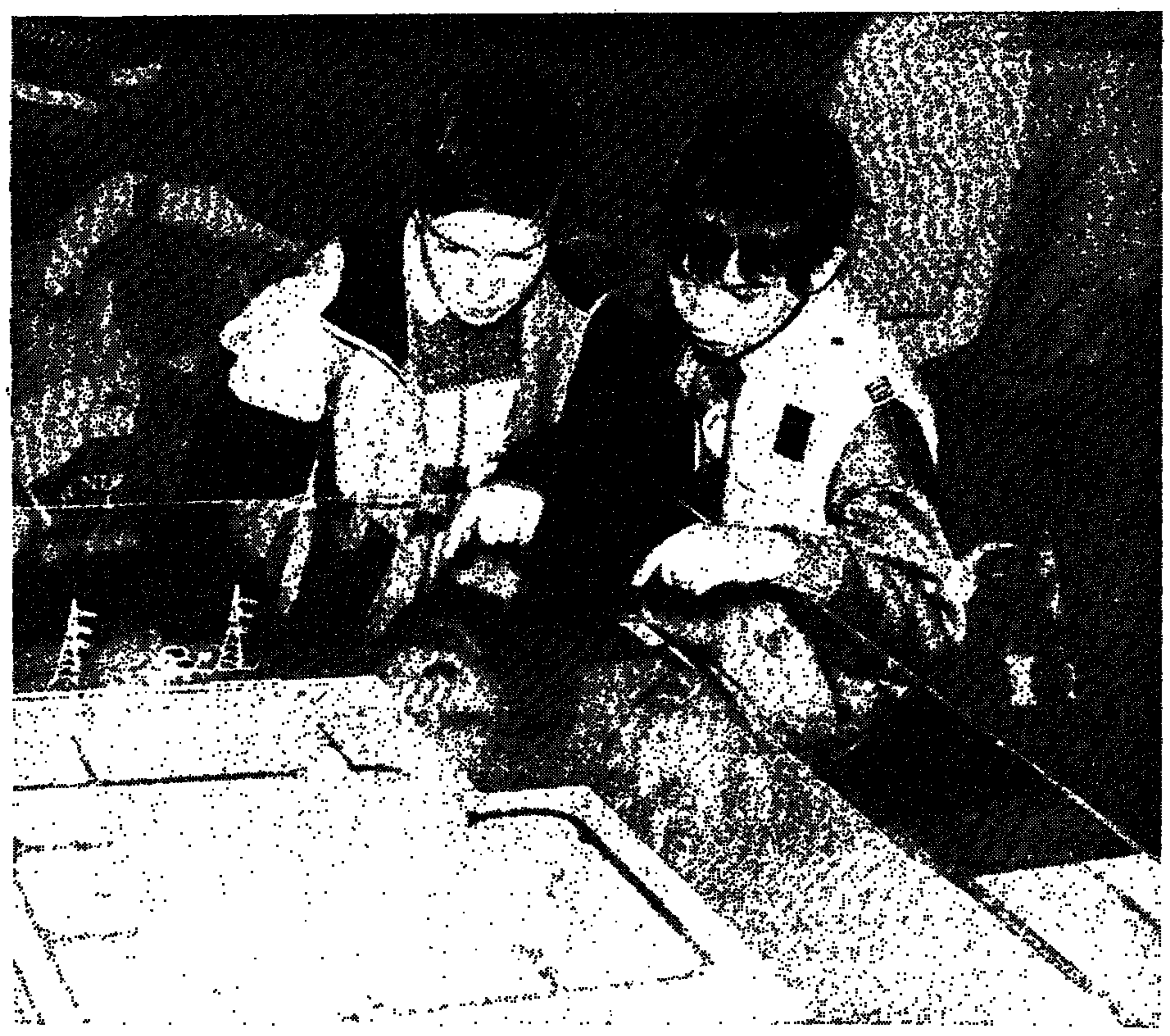
The Soviets have said they are modifying all their Chernobyl-type reactors to bring them in line with Western safety thinking. They have also said they will start no more reactors of this type. They are concentrating on construction of 1,000 MW PWRs.

David Fishlock

Looking to the future



Source: CEGB. Figures in brackets are percentages



CONTROL DATA, a leading energy management specialist, has developed a powerful new graphics capability to speed the interpretation of power systems information.

The system permits the display of data in such forms as three-dimensional images to reveal load profiles, curve graphics to depict control error trends, and bar charts to show unit commitment schedules. By enabling control engineers to assimilate data faster, it helps them to respond more quickly to demands for electricity.

"A picture is more easily understood than plain data," comments Timothy Kenealy, of the company's energy managements systems division. From the graphics console, the operator can monitor and control the power system. Up to four separate viewports are available on each console.

Dinner by dimmers

ENGLAND'S newest luxury hotel is all-electric. The Hotel Renouf at Rochford in Essex, has been built for Derek Renouf, master chef and proprietor of an all-electric gourmet restaurant in the same town. Opened last September, it cost £1m to build, and offers luxury accommodation and French cuisine, prepared by six chefs.

The hotel at present has 24 bedrooms — five of them suites with their own jacuzzis — but it is planned to extend it to 50 bedrooms shortly and, eventually 75.

The kitchen is the heart of Derek Renouf's domain. Closed circuit television monitors in guests' rooms enable visitors to watch their dishes being prepared before entering the restaurant to dine. This builds on the tradition Renouf has maintained in his other restaurant in Rochford where diners have always been welcomed into the kitchen to see the chefs at work.

Between the cooking ranges and the kitchen doors is a specially-made pass-through hot cabinet with a quartz lit bench top so that the presentation of each dish can be examined minutely before it is served.

The restaurant lighting is controlled by dimmer switches which have to be turned down only a fraction to enhance a back-lit Bayeux Tapestry type decoration running the length of one wall.

The hotel has been built to a high standard of insulation while lighting throughout the reception area and corridors consists of more than 50 Luminance downlighters using low energy lamps. Their total load is less than one kilowatt which saves on the consumption of electricity and lessen cumulative heat gains.

The corridors are kept warm by storage heaters controlled by electronic sensors to minimise running costs. The bedrooms have panel convector heaters which can be individually adjusted by guests to suit their own standards of comfort. Bathroom extractor fans also ventilate the bedrooms.

Maurice Samuelson

Power station emissions

UK acts to limit sulphur output

IN THE acid rain controversy of the past five years, Britain has been frequently cast as the "dirty man of Europe", whose belching power station chimneys spray clouds of death over the beautiful lakes and woods of Scandinavia.

Only with great reluctance, it is charged, is Britain finally following the West Germans and other big industrialised countries in carrying out the costly job of dealing with the offensive sulphur and nitrogen emissions from UK power stations.

Such is the attitude of Britain's critics to last September's pledge by Lord Marshall, the chairman of the Central Electricity Generating Board, (CEGB) to desulphurise the flue emissions of three of the country's biggest coalfired stations, and to ensure that all new coal-fired stations will have gas scrubbing equipment when they are built. This, he said, will ensure that UK output of sulphur dioxide would continue to decline for the rest of this century.

But to suggest that the UK electricity industry is either a late starter or ignorant about power station hygiene, touches a tender nerve at the CEGB. The board has been in the forefront of research into the problematic links between industrial emissions and damage to the environment.

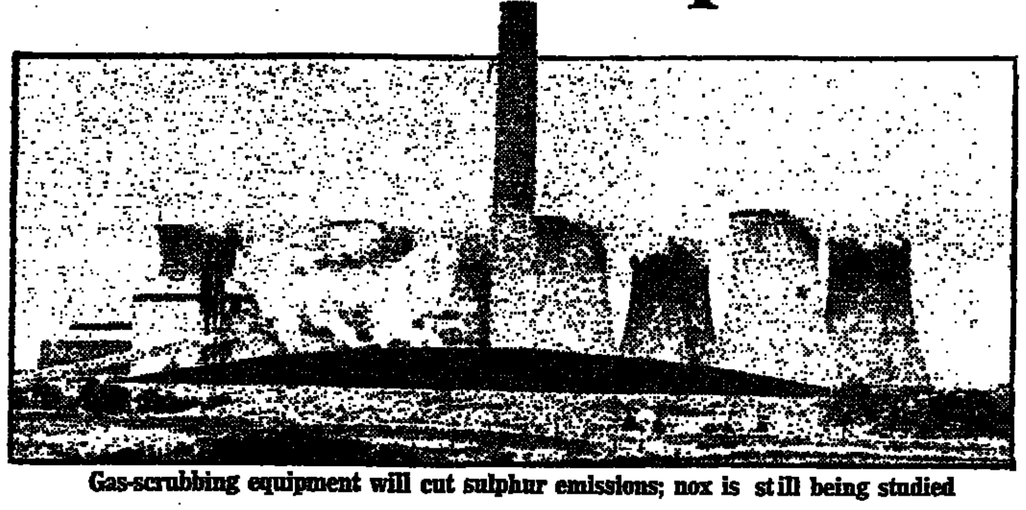
It acknowledges that there is a link between sulphur dioxide (SO_2) emissions and damage to aquatic life. But though it is also experimenting with ways of cutting nitrous oxide (nox) emissions from power stations, it says much more remains to be learned about the role of nox in formation of acid rain and damage to forests. It also points out that much of the nox is emitted not by power stations but by motor cars.

Mr William Kyte, a senior member of its research division at Leatherhead, Surrey, is also quick to point out that modern flue gas desulphurisation (FGD) began in Britain more than half a century ago, with the construction of Battersea, Bankside and other power stations, close to the heart of London.

No further FGD plants had been built in Britain since then due to the success of dispersing sulphur dioxide fumes by building very tall chimneys or stacks. In the meantime, the early British work of FGD had been extended in the US, Japan, and West Germany, where many FGD plants have been installed.

Now that the CEGB has decided to start introducing FGD equipment on some of its power stations, it is looking for the most economical as well as the most efficient systems developed there and in other countries.

Although there are more than 100 different processes in use or under development, the systems considered by the CEGB fall into two broad categories, distinguished by the by-products to which they will give rise. By "washing" the sulphuric emissions in a limestone or chalk slurry—a system used in Japan—the CEGB will produce high grade gypsum, the basic raw material of the plasterboard industry, cement, or lower-grade products suitable for landfill.



Gas-scrubbing equipment will cut sulphur emissions; nox is still being studied

The other method, known as the regenerative system, creates sulphuric materials, such as sulphur, sulphur dioxide or sulphuric acid. Since large quantities of these products will seriously disturb the existing markets for them, the CEGB is planning to diversify its systems along product lines.

A typical UK wallboard plant, for example, would be well-matched to the gypsum output from a typical 2,000 MW power station. It would use about 300,000 tonnes of limestone each year. This process would then produce about 500,000 tonnes of gypsum for resale.

The limestone/gypsum method is expected to be chosen for Britain's most modern coal-fired station at Drax, Yorkshire, and at one of the main Midland power stations, such as Ratcliffe on Soar.

At Drax's 2,000 MW extension, completed less than two years ago, work on FGD is expected to start in two years' time. When operational in about 1993, it should be removing about 90 per cent of the SO_2 emissions from the plant's three 660 Mega-Watt units.

The Drax plant will consist of a quencher and an absorber unit, situated between the induced draught fan and the chimney inlet. The waste gases would be rerouted through the FGD plant instead of passing straight to the stack. There would also be areas for grinding and slurrying the limestone, for storing the gypsum and for water treatment.

Fiddlers Ferry, on Merseyside, which is close to several large North West chemical plants, will almost certainly be fitted with a regenerative system, to create various sulphur products.

Contracts to clean up the first three 2,000 MegaWatt power stations are being keenly anticipated by the would-be suppliers, deprived for so long of new power station orders. With an estimated total of £600m, the contracts are expected to be placed with UK companies, which have technology licensing links with engineering concerns in Japan, the US or other parts of the countries.

According to Mr Kyte, some 12 to 15 UK-overseas consortia are likely to assemble at the starting gate once the CEGB is ready to invite bids. Their names read like a Who's Who of the Western world's most prestigious power plant suppliers.

Among those offering a mixture of British and foreign expertise are Northern Engineering Industries International Combustion, Babcock Power, Davy Corporation and John Brown.

NEI, Davy and John Brown profess early confidence because they are among companies asked to carry out low level studies by the CEGB. However, the CEGB insists that these will have no bearing on its eventual choice of contractors. Although other partnerships may develop in due course, the present alliances are as follows:—

- NEI International Combustion has a technology agreement with Mitsubishi, which has installed nearly 60 gas-scrubbing units in some 15,000MW of power station capacity and claims to hold half the Japanese market and to have won orders in the US and West Germany.
- Babcock Power is linked with Hitachi.
- Davy has the patented and well-tried Willman-Lord method for producing sulphuric acid or other sulphur by-products. It has built 25 such systems in the US, five in Japan and a growing number in East and West Germany and Austria. Although up to 20 per cent costlier to build than the gypsum plants, the system gives products which are easier to store.
- Davy also has the European rights to construct a gypsum system using the US-patented Research-Cottrell method.
- John Brown Engineering and Construction has access to technology used by General Electric of the US, which boasts a large share of the world market.
- Sim-Chem (formerly Simon Carves) is examining a process used by United Engineering of the US, which has installed gas-scrubbers at three plants in Philadelphia.
- Foster Wheeler has joined forces with Flakt of Sweden, which owns the Niro system, traditionally used on smaller power stations but, in the CEGB's view, increasingly attractive in big plants. Flakt owns a separate technology acquired from the US Peabody company.

But despite their multiplicity, these companies still represent only a small percentage of the many different processes of cleaning up flue gas emissions which are either available or currently being developed.

A paper recently published by the CEGB identified more than 100 different desulphurisation techniques, with nine broader categories, including the direct injection of limestone into power station furnaces.

Nor is the CEGB alone responsible for the level of its sulphur emissions. The problem originates with the sulphur content of the coals supplied to it and the ineffectiveness of coal-washing techniques at the pithead.

Sulphur occurs in coal in organic and inorganic form. The organic sulphur is difficult to extract before the coal is burned, but the inorganic sulphur, visible to the naked eye as shiny pyrites, accounts for about half the sulphur in British power station coal. Research is now being conducted into ways of removing this sulphur by magnetic methods.

Since sulphur levels vary from one coalfield to another, installing FGD plants in power stations means that these power stations will be able to absorb the country's most sulphurous coal and that low sulphur coals can be routed to power stations without FGD.

As a result, the CEGB claims that although it is initially equipping only three 2,000 MW plants with FGD, the overall effect on its total SO_2 emissions will be as if it had also equipped a fourth 2,000 MW station.

Maurice Samuelson

Clean up programmes to year 2000

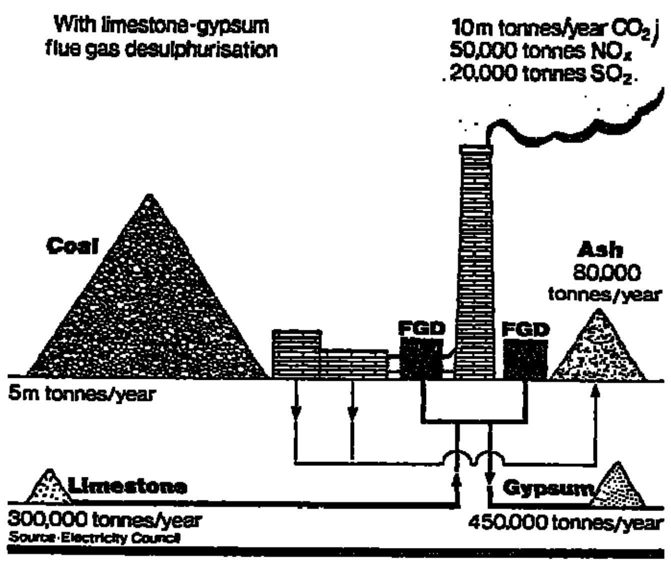
Non-industrial flue-gas desulpharisation capacity in some OECD countries

	Capacity installed or under construction MWe	%	Planned Capacity MWe	%	Total MWe
Austria	1,500	(65)	1,100	(65)	2,600
Denmark	—	(—)	4,000	(50)	4,000
Finland	250	(10)	200	(20)	450
FRG	13,000	(35)	35,000	(85)	48,000
Netherlands	300	(10)	2,400	(60)	2,700
Italy	—	—	80	(1)	80
Japan	12,000	(85)	13,000	(90)	25,000
Sweden	450	(25)	550	(50)	1,000
UK	—	—	10,000	(25)	10,000
US	55,000	(20)	44,000	(35)	99,000
Total	82,500		112,230		194,730

Source: Klingspor, J and Cope, D. Index of Flue-Gas Desulphurisation Systems. London: IEA Coal Research, 1987.

Emission control process

Material flows for 2000 MW coal-fired station



Source: Electricity Council

Tackling the acid rain problem

• THE DECISION by the Central Electricity Generating Board in Britain to retrofit flue gas desulphurisation (FGD) plant to three 2,000 MW power stations marks a major step in its bid to tackle the acid rain problem.

The entire FGD project ultimately aims to cut the sulphur dioxide emissions by 30 per cent by the end of the century. The illustration above showing the limestone-gypsum process represents one of the choices available to the board.

Limestone in this process is delivered to the site, then ground and slurried. This is then used in a spray tower to contact the gas stream where calcium carbonate reacts to produce calcium sulphate or gypsum. This is then extracted and dewatered by a centrifuge before export from the station. With the FGD process, flue gas goes straight from the induced draught fan to the stack

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

ANYONE WHO dared to recall Jardine Matheson as the "Princely Hong" in recent years would probably have been accused of making sick jokes. But today, if the mood of Jardine executives on the elegant 48th floor of Hong Kong's Connaught Centre is any guide, the blue blood is once again beginning to run strong.

As the culmination of a three-year convalescence from what could easily have been corporate mortal wounds, the group recently unveiled a restructuring of Byzantine intricacy that confirms that it is off the sick list, and sets the scene for what could be a robust period of fresh growth.

"A lot of people have gone, some of them with sadness," says Simon Keswick, who has been "taipan" of Jardine since a boardroom coup in 1983 that unseated David Newbigging. The coup also put the founding Keswick family firmly back at the helm of a group that earned its original fortune out of the opium trade, and whose name has been synonymous with Hong Kong since Britain took control of the "barren island" in 1852.

The restructuring which can be regarded as the corporate equivalent of scrambling and unscrambling a Rubic cube, is the last phase of a year-long process disentangling Jardine from a Siamese twin relationship with the property group Hongkong Land that had been intended to protect the two from outside predators.

The link, created in the late 1970s during a period of intense paranoia among the territory's Hongs when two major takeovers by powerful local Chinese figures aroused fears that the sun had finally set on Britain's proud trading companies, was eventually to become the single gravest threat to the survival of both.

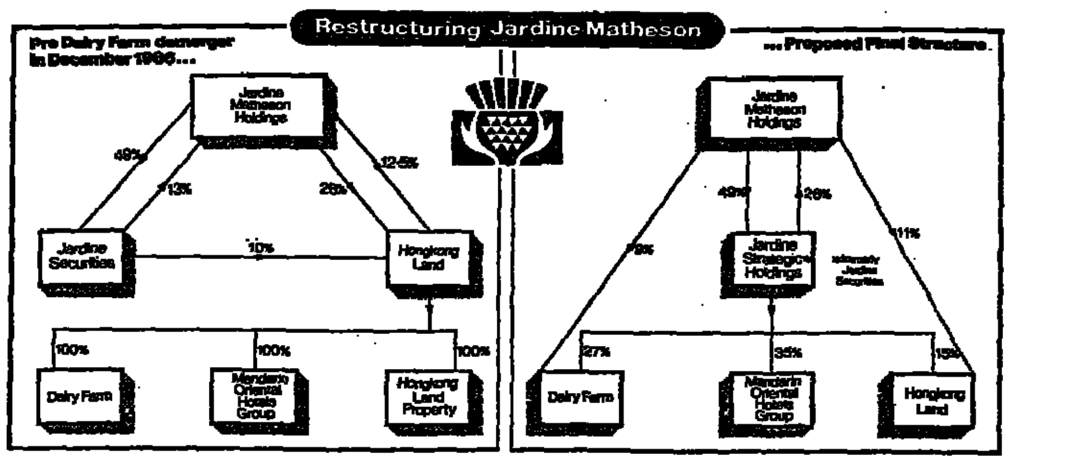
The restructuring seems set to release for shareholders in Jardine and Hongkong Land substantial value that has until now been hidden in the groups. Key to this has been the completed and imminent spin-offs from Hongkong Land of two valuable subsidiaries. Anyone now focussing his corporate sights on the group, or any of its component parts, has lost the chance of windfall gains that could have come from stripping out undervalued assets.

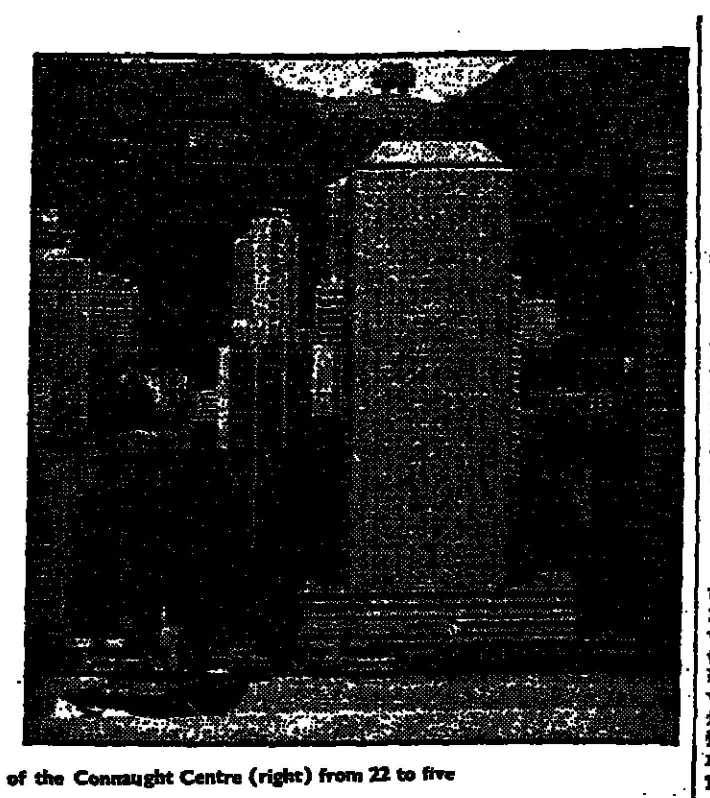
The Keswick family, which today probably holds no more than a 10 per cent stake in Jardine, also emerges from the restructuring without having had to dip into its own pocket, and without its control over the group being weakened. At the same time, the distancing of the group's domicile from Hong Kong in advance of the colony's sovereignty reverting to China in ten years' time, continues with the domicile of the two Hongkong Land subsidiaries being switched to Bermuda where Jardine has been domiciled for the past two years.

Corporate restructuring

Jardine secures its empire

BY DAVID DODWELL





Simon Keswick (left): dismantled a highly centralised corporate structure and cut the number of executives on the top floor of the Connaught Centre (right) from 22 to five

Jardine was plunged into crisis in 1983 when the bottom fell out of Hong Kong's property market. Its Hongkong Land associate company was caught at the time of the collapse with major construction commitments, and appeared at first to be headed towards debts of HK$ 25bn. With interest rates soaring beyond 20 per cent, it looked certain to collapse.

"We bet the ranch at the wrong time," recalls Brian Powers, recruited to the main board ten months ago to mastermind group strategy. Few predicted the scale of Hong Kong's property collapse, but many argued at the time that Hongkong Land was inviting disaster by making a number of major expansionary commitments at a time when the economy was clearly overheated.

At that point, Hongkong Land owned about 43 per cent of Jardine, and Jardine owned 40 per cent of Hongkong Land. And both came under the umbrella of Jardine Securities (which has since been re-named Jardine Strategic Holdings). Hongkong Land and Jardine were chained so tightly together that they seemed destined to share a grave together.

During the past three years of crisis management and slow rehabilitation, many assets have been sold at distress prices, debts have been pared, the gods have been thanked for a meteoric stock market recovery, and for interest rates that are lower than they have been since 1978.

Two factors evidently helped executives to concentrate efforts on survival. First, Hongkong Land was left to "draw fire," leaving Jardine staff comparatively unharassed by journalists, bankers or the investing public.

Second, in one of his first moves as chairman and as a matter of executive philosophy, Simon Keswick dismantled a highly centralised corporate structure and devolved to two heads of individual operating companies the responsibility for running those companies. From 22 executives working on the top floor of the Connaught Centre, he cut the total to five.

"When things were going very badly, the real headaches were carried by the five men on this floor," Simon Keswick recalls. "Men who were running operating companies did not have to be bothered by the problems at the centre."

A factor behind the placing of Hongkong Land in the front line was that underlying the Siamese twin relationship had been a power struggle between the two groups. Hongkong Land, under its managing director, Trevor Bedford, had been expanding outside its traditional domain as a property group to take substantial stakes first in the utility Hongkong Electric, and then in Hongkong Telephone. It was thus challenging Jardine's role as a diversified trading group.

Jardine has not been slow to exploit the fact that as the market collapse swept the Hongkong Land group to the brink of insolvency it could alter the balance of power between the two groups back in its favour. By setting in train the hiving off from Hongkong Land of two major subsidiary operations—the retailing activities of Dairy Farm and the Mandarin Hotel Group—Jardine has ensured that Land's wings are clipped so that it becomes a "pure property play," in the words of Brian Powers.

There is no disputing that Hongkong Land shareholders have already seen value added to their holdings. In December, the wholly-owned Dairy Farm subsidiary was sold to Hongkong Land shareholders at a special price related to asset value only. The shares were subsequently given a quotation on the stock exchange. The Hongkong Land shareholders now find that instead of one Land share with a market value at the time of the deal of HK$5.60 they now have two shares—one in Land and one in Dairy Farms—together worth around HK$ 13. Even accounting for the cost to them of their Dairy Farms share purchases and the rise in the stock market, they are sitting on a healthy paper profit.

Land shareholders are now preparing for a similar exercise with the Mandarin Hotel Group—worth about HK$1.9bn—with the spin-off planned for the first half of this year. If shareholders see similar gains from this transaction, then few will be complaining.

Jardine has meanwhile consolidated itself as the conglomerate, using its roots as a diversified trading group to define "core" interests spanning retailing, hotels, insurance and financial services and trading, as well as its controlling stake in Hongkong Land Properties—as it is now called.

Jardine can be expected to turn to its own subsidiaries next in order to maximise the market value of the group. Most likely will be the group's franchising operations—encompassing motor vehicle retail franchises to those of PizzaHut, the Tacobel fast food outlets, Maxims and the 7-11 retail outlets, all mainly in the Far East, and its insurance and financial service activities.

Four men carry the responsibility for the restructuring of the group. A permanent shadow behind Simon Keswick, 44, is his older brother, Henry, 48, who is now based in London but has extensive experience of Hong Kong operations, and has never been far from major decisions over the past decade.

The two strategic thinkers have both been imported—Rodney Leach two years ago from Jacob Rothschild, and Brian Powers only last year from James D. Wolfenson, one of New York's most select "boutique" merchant banks.

It appears that Powers, sitting in an office alongside that of Keswick in Hong Kong, has day-to-day responsibility for conceving and putting flesh on ideas. He works closely with Leach, who is based in London, and has line responsibility for the group's financial services and insurance activities. Simon Keswick is understood to be preparing to return to London, reinforcing a trend by which real power over the group is becoming more firmly wielded from London.

Questions are inevitably being asked about whether executives obsessed for so long with crisis management are the right people to "grow" the recovering components of the group.

Early answers are unlikely. Jardine's engineering and trading operations are regarded as undistinguished set against competitors in the territory, as are the executives running them.

Jardine's insurance and financial services operations have a more formidable reputation, with the names of Rodney Leach and Alan Smith, who heads Jardine Fleming, well respected internationally. Questions here are more likely to hinge on how profitable the group can be in a sector that is fiercely competitive.

The Hongkong Land position is perhaps clearer. It has lost a lot of senior personnel as its wings have been clipped, and this has unquestionably hurt morale. But it is argued by analysts and executives in the group that the group will in future be a much simpler one to run. Operated conservatively, it retains Hong Kong's best property portfolio.

Expansion of the group is likely to be outside Hong Kong, and will be focused not on assets but on generating cash flow. "We have to balance the geographical, asset and business mix properly," insists Keswick.

About 70 per cent of the Jardine group's assets are currently invested in Hong Kong, and the group aims to reduce this to 50 per cent. "The problem is that our Hong Kong businesses are doing so well at present that we are finding some difficulty in reaching that goal," says Powers.

The group's efforts to distance itself from Hong Kong drew volleys of criticism in the British territory, and probably inside China's leadership, too, when the group announced in March 1984 that it was moving its headquarters to Bermuda.

Though Bermuda offers tax advantages, the shift in domicile is unquestionably linked both with the fact that Hong Kong will return to Chinese sovereignty in 1997 and the group's painful memories of the time the Communist Party swept to power in China in 1949.

Many recall that all of its assets in China were effectively confiscated after 1949. One observer recalls: "The group was almost taxed into liquidation. It only survived because it had some assets that the Chinese could not strip out." A group that has operated from Hong Kong for over 140 years perhaps inevitably has a long memory.

Management abstracts

The strategic value of price structure. A. A. Stern in The Journal of Business Strategy (US), Autumn 86 (10 pages)

Explains the concept of price structures which is concerned with variations of price for different situations (eg for different customers or quantities); gives examples; explores the principles of setting price structures to respond to competiton, enhance revenues and manage the cost of delivering products or services.

Corporate fitness and blue-collar fears. K. Pechter in Across the Board (US), October 86 (8 pages)

Quotes examples to show that the US drive for corporate fitness has had an impact on white-collar staff only; claims that these programmes have barely touched blue-collar staff who often have the most stressful jobs, the poorest health habits, and the least trust in management's "wellness" campaigns.

Living with AIDS in the workplace. R. Bayer and others in Across the Board (US), Sept 86 and Oct 86 (13 pages)

The first article looks at some of the personnel and insurance implications of the AIDS epidemic, and includes a disguised case example of how one company handled the fears of other employees on the return to work of an AIDS victim. The second article argues that if there is to be an answer to AIDS the medical facts must be fully understood and ideological rhetoric put aside; makes the case for the "tracking" of possible carriers.

Software maintenance—an unexplored audit area. W. E. Perry in Journal of Accounting and EDP (US), summer 86 (2½ pages)

Finds from survey results that software maintenance is ill-managed; argues that auditors should become involved because maintenance represents a major cost to organisations, and the risk of loss from ill-maintained operational systems is high. Suggests that management policies and procedures for maintenance be developed, software maintenance looked on as a discrete function, resources monitored, and standards set.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

THE ARTS

Hedda Gabler/Leicester

Martin Hoyle

As with Peer Gynt's onion, layers of meaning can be peeled away from *Hedda Gabler*. Ibsen's study of creativity stifled and individuality dwarfed by sexual conventions can yield rich pickings on the psychological, social or political planes. As a view of thwarted female spirituality, the play ranks with other Ibsenist pleas for feminine freedom, *The Lady from the Sea* (moral choice) and *A Doll's House* (social equality).

Hedda can be seen as the impotent aesthete, whose creative abilities are confined, to her disgust, to procreation. However, death as much as birth is omnipresent in Gregory Smith's stylish setting at the Leicester Haymarket. Black and grey furniture, angularly arranged, is flanked by barren trees. The back room, always hidden behind black gauze, is on a raised platform between two pillars, from whose monumental urns sable foliage blossoms like funeral plumes. This drawing-room is entered from below by way of trapdoors—apart, of course, from Judge Brack's approach by that significant "back door."

Michael Boyd's production gives us the late romantic Hedda, the *belle dame sans merci* perhaps, but also the fated sphinx, doomed along with her victims. Piano transcriptions of Wagner, visual references to Klimt and Schiele, the black curtain that initially separates audience from past (Hedda hates the light)—all evoke the terminally inverted romanticism of Mario Pratz' *The Romantic Agony*.

Some Heddas are funny (Joan Greenwood unforgettatbly drawled out her lines to George Cole some 25 years ago); some go down fighting. Here Sian Thomas gives us a threnody for inertia. The production emphasies the negative aspects of her character. The desperately bored cigarette-smoking with which Hedda opens the play before eavesdropping on the first scene heralds the New Woman; and she actually settles down to read Loevborg's lost manuscript before burning it. But the overall impression is of an almost paralytic impotence. Her aggressiveness amounts to no more than helplessly impatient throwaway sarcasm,s until she is finally shaking with anger and bitterness at the realisation that she is the only static, unproductive figure in this company of nonentities. She envies those who destroy their own world as much as the cerators—even the despised Mrs Elvsted can make the positive gesture of ruining her reputation to follow Loevborg. This is Hedda as a woman of no importance indeed. The implied masculinity of those symbolic pistols is irrelevant.

Miss Thomas allies a flexible voice to the probing profile of a Pre-Raphaelite anteater in quivering quest of the Holy Grail. Why on earth should I be happy? is the key line in an interpretation that underlines her talent for "boring myself to death." Her destruction of the manuscript is striking: not in a stove, but in a waste-bin, where dangerous-looking flames dramatically illuminate the darkened stage. The black shape of Aunt Juliana in deep mourning is suddenly apparent; and her sigh of "It was so beautiful!" of her sister's death ironically emphasises the pattern found in life by these commonplace people, while Hedda, the great aesthete, transforms all she touches into the "mean and ludicrous."

A passive view of Hedda needs a less stiff Loevborg than John O'Toole, though his raw-boned celtic puritanism does hint at the rake reformed. Sean Scanlan is a first-rate Brack, his gravel-voiced drawl bespeaking both middle-aged playboy and potentially ruthless authority. The dialogue about that allegorical train journey (Michael Meyer's translation) is heavy with sexual suggestiveness. Bill Stewart's amiable bumbling makes Tesman the provincial academic incarnate; Sandra Voe is a comforting and not-too-ridiculous Juliana (a touch of Miss Voe's Edinburgh gentility would go down a treat here) and Gaylie Runciman brings both Scots practicality and a dash of the fey to an unusually positive Mrs Elvsted.

Architecture/Colin Amery

Celebrating Soane the hero

It is 150 years since the death or Sir John Soane (1754-1837). Two important events combine to celebrate this anniversary: the opening of some of the restored rooms of his country house, Pitshanger Manor, Ealing; and an important exhibition, *Soane and After, The Architecture of Dulwich Picture Gallery*, which continues at Dulwich well into March.

What is clear and, indeed, has been clear for a long time, is that Soane has an uncanny relevance to the present day architectural debate. He has shown that the simplified but sophisticated use of the classical language has infinite architectural life.

The exhibition at Dulwich is the most thoughtful and clear account of Soane's architectural development. It is always fruitful to look in detail at the history of one building by any noteworthy architect, and at the Dulwich Picture Gallery it is possible to do this with the raw material of the Soane building at hand.

A chronological account describes the gift to Dulwich College of the collection of pictures that had belonged to Sir Francis Bourgeois accompanied by the donor's wish that his friend Soane should design a gallery and a mausoleum for Bourgeois and his friends and fellow collectors, the Desenfans.

Two important architectural points are made in the exhibition. One concerns the exact nature and the source of the perfect top light for which the gallery has always been so highly regarded, and the other is the complexity and intensity of the architectural solution for the problem of a mausoleum adjoining a gallery.

Dulwich has always been much admired as a top-lit gallery although what we experience today is much brighter than originally intended by Soane. George Dance's Shakespeare Gallery, shown by a painting in the exhibition, is clearly the direct precursor of Dulwich.

Sublime grandeur on a small scale — Soane's mausoleum at Charlotte Street was the prototype for the one now at Dulwich

Dance's gallery is plainer above the cornice line than Soane's but it is an intersting and important source. Soane uses the cube and the double cube in these galleries and it is these fine proportions that allow him to be completely plain and simple in the interiors.

The exhibition looks at the history of the classical mausoleum in a useful way and deals with the question of "primitivism"—one of the areas where modern architects find much in common with Soane. When Soane built at Dulwich it was still rural and the use of brick was possible in this situation. Primitive Doric was also considered appropriate for the mausoleum.

It is a joy to see the drawing relating to the dairy at Hammels by Soane—one of the earliest recorded examples of rustic primitivism. Again and again it is possible to look from the drawings or documentary material to the original building—a most rewarding aspect of this exhibition.

There is also an excellent catalogue by Giles Waterfield which ends with some cursory explorations of the reasons for Soane's popularity today from a selection of contemporary architects. Nothing any of them say is half as eloquent as a visit to Dulwich itself.

The restoration of the Soane rooms at Pitshanger Manor in Ealing is altogether a less happy event. While the removal of the public library and the subsequent conversion of the house into a museum and meeting centre must be welcomed, the actual restoration of the rooms is a worrying compromise. Admittedly there is no furniture but the breakfast room and library have a brightness and coarseness in the repainting that is far from satisfactory.

It is early days, but all the warning signs are there that this restoration is wobbly and uncertain. Lack of funds as well as a lack of inspiration has led to the compromises at Pitshanger. The house is too important to suffer the kind of accurate economy that has produced a result that is only just in the spirit of Soane.

At the Sir John Soane Museum in Lincoln's Inn Fields the imminent opening of a new room of architectural models is an appropriate way to mark the 150th anniversary. The formation of a Society to raise funds for the museum is also to be welcomed as it will provide a valuable opportunity for some enlightened sponsorship.

The fashionable rehabilitation of Soane as an architectural influence must be supported by the properly funded care of his buildings. He is undoubtedly one of the great geniuses of English architecture. His restraint and elegance offer perfect clues for the rehabilitation of a sane approach to architecture that does not ignore common history. Soane is a hero—reticent, noble and abstract—in some ways hard to love but someone who must never again be ignored.

A View from the Bridge

Martin Hoyle

The London theatre's adulation of Arthur Miller thrives apace. His undoubted masterpiece, *Death of a Salesman*, won acclaim at the National Theatre. The theatrical excitement of *The Crucible* has been confirmed at the Young Vic and on tour with the RSC. The melodrama of *All My Sons* aptly enjoyed a commercial run in the West End. At the Pit they struggle to spruce up the fustian old hat of *The Archbishop's Ceiling*. The National is currently presenting the forgettable *American Clock*. And now, not long after (or so it seems) a Young Vic production, the NT's smallest auditorium mounts *A View from the Bridge* with the quiveringly earnest accolade of solemn programme-notes from the groves of outer provincial academe.

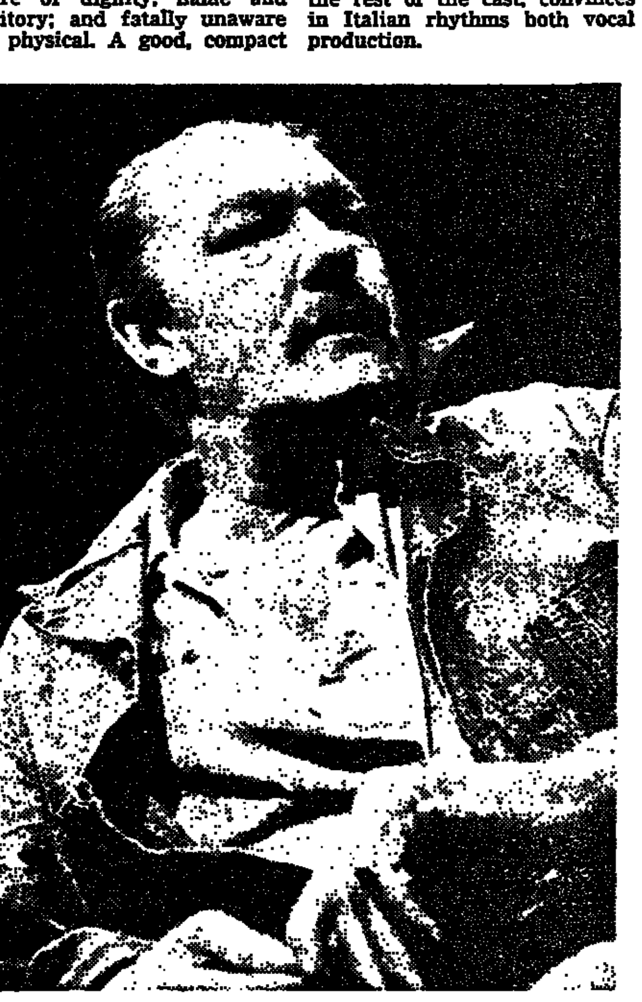
Assuming that Miller is the World's Greatest Living Playwright—which is the inescapable conclusion to be drawn from such incessant exposure—then the new *View* has much to admire. Alan Ayckbourn directs. Despite a long tenure as artistic director at Scarborough, Mr Ayckbourn is best known to London audiences for his comic work (his production of *Tons of Money* cheerily holds the stage at the Lyttelton, not to mention his own writings). This production shows him to be a fluent and natural exponent of tragedy.

He builds meticulously with small details, and establishes the tight-knit domestic atmosphere of Italian immigrant life in New York's dockland. Sound effects—seagulls, hooters, passing traffic, grinding machinery—are used sparingly, chiefly to top and tail each scene. The portentous narrator device—the lawyer Alfieri is part Greek chorus, part cornball philosopher—is toned down by James Haye's naturalistic playing (apart from having his little desk trundle on stage after him by itself).

Above all, the characters react to one another like a true ensemble. Michael Gambon leads the cast as Eddie Carbone, longshoreman, inarticulately aware of dignity, name and territory; and fatally unaware of the real nature of his possessive feelings towards his 17-year-old niece Catherine. Mr Gambon's stocky bulk is fleet of foot and light of movement. He charts Eddie's growing, if unrealised, jealousy of the handsome illegal immigrant sheltered in his home, from narrowed eyes as the boy exuberantly bursts into song to an uncharacteristically angry comment on Catherine's new high heels. Thereafter he knows no peace: "A passion had moved into his body like a stranger," the narrator explains; and we see Eddie desperately rationalising his resentment of the young man ("The guy ain't *right*"), to the painfully raw anger, hurt and hate when he surprises the couple together.

The incipient melodrama is avoided by rooting the family group firmly in recognisable reality. Little pauses, the cheerful lack of words when new people meet, might come from a gathering of Ayckbourn's own characters. The production even makes the lawyer-storyteller's dated harping on destiny (the original play was written in verse; the curse of classic myths looms ominously close) tolerable. And when Michael Simkins's gravely watchful Marco, the boy's elder brother, obliquely defends family honour by beating Eddie in a trial of strength, roaring, grinding sound effects and the stage darkening for the end of Act 1, inform us that the infernal machine is set in motion.

Alan Tagg's set cradles the Carbone kitchen between raised ramps, backed by a catwalk and the occasionally glimpsed photographic blow-up (very striking) of the Brooklyn Bridge. In this arena the curse of forbidden love, jealousy and betrayal is played out by a uniformly strong company. The women, particularly, stand out: Elizabeth Bell's kind, anxious and eventually frighteningly perceptive Beatrice, noting Eddie's estrangement from her; and the niece, played strongly by Suzan Sylvester who is a find among young actresses. Adrian Rawlins as the boy, like the rest of the cast, convinces in Italian rhythms both vocal production.



Alastair Muir

Michael Gambon

de Peyer/Wigmore Hall

Richard Fairman

In the past few years the clarinettist Gervase de Peyer has made his career primarily in the US. For his return to the Wigmore Hall on Thursday he brought with him an unexpected cache of American expressions ("intermission" for "interval") and, more importantly, a couple of works new to this country in his luggage.

In all the music that he plays this artist is quick in intelligence, lively in musicality. It follows inevitably that any composer who is asked to write a piece for him is likely to devise a score that will use his qualities to the full. Both the new works on this occasion seemed ideal candidates: entertaining showpieces, tonal and easy to grasp, yet well-constructed music in every way that never talked down to the audience.

The shorter of the two was a Sonata by the Californian teacher and pianist Michael Cave. This is a terse, bright single movement, which does not waste a note. Within just a bar or two texture and rhythm set a precise new mood for the second subject and its other ideas were generally marshalled with equal skill. It was interesting that the very high solo part drew a more acerbic cutting edge from de Peyer than one might have expected.

For his other new work he turned to Miklo Rosza, still best known for his Hollywood film scores. We are, however, far from *Ben Hur* and *El Cid* with this unaccompanied Sonata for solo clarinet. So sure is Rosza's touch in inventing and developing kernel ideas here that there can be no doubt as to his ability to work with equal success on the grandest or smallest scale. The piece is good fun and should attract other clarinettists.

Their only problem will be to match de Peyer's characterful brilliance. The recital ended with Joseph Horowitz's light and jazzy Sonatina, another clarinet show-stopper, but this one also gave equal opportunities to Gwenneth pryor, the evening's very able accompanist.

Barbican's 5th birthday

London's Barbican Centre, home of the Royal Shakespeare Company and the London Symphony Orchestra, is to celebrate its fifth birthday in March with a special concert by Sir Georg Solti in the presence of the Duke and Duchess of Kent.

The March 3 concert will mark four days of birthday events.

Sir Georg Solti will conduct an all-Beethoven programme. In contrast, the RSC will stage a musical tribute to the American songwriter Cole Porter.

London City Ballet/Brighton

Clement Crisp

London City Ballet,s current regional tour found them in Brighton at the Theatre Royal last week, where I was able to see the company's latest repertory acquisitions. Galina Samsova's production of *Giselle* and Jack Carter's *Three Dances to Japanese Music*. *Giselle* is a staging well conceived for the company's forces — just 29 dancers — and pleasantly designed by Peter Farmer. IBM can feel that their sponsorship funding is wisely spent; audiences can know that, despite the inevitably reduced size of the version, this is a real *Giselle*, with no short cuts in Samsova's editing. There may only be 14 wilis in the forest scene, but they move well and coherently, and this Romantic masterpiece is alive.

The exceptional interest of Saturday's matinée was Kim Miller's interpretation of Giselle. I gather that Miss Miller is new to the role; I was seeing only her third performance, and I am most happy to have done so. Seeming a soubrette in physique, she deploys a warm, creamy technique.

Her first act is as yet rather mild, the peasant girl shy, the dance soft—albeit the bravura solo rang bright and true—and it was only during the latter part of the mad-scene that there came that frisson of excitement that tells of an artist catching the measure of the role and immersing herself, and us, in the agonies of Giselle's suffering.

But Miss Miller's second act, and here lies the test, I found of real merit. Her "inward" manner is assured (rare for a newcomer to the role) and wholly communicative. The will fulfils her destiny and the dance flows on, strong and tireless. The jump is clear, the small steps clean, phrasing melts delicately. We see that Giselle is a ballerina role and that Miss Miller is talented enough to undertake it without denying its greatness. There is danger in too much praise for a young artist as there is in too little, but I shall remember this interpretation with gratitude.

The ballet lived truly, despite a small stage and small resources because of the technical integrity and emotional sincerity of Kim Miller's dancing She was well partnered by Andrea Costa as a handsome Albrecht, and well supported by Janet Tait—a Myrtha who could have been drawn by Ingres—and the pretty ranks of the wilis.

Three Dances to Japanese Music was created by Jack Carter for Scottish Ballet, where Marian St Claire (LCB's leading ballerina), Harold King (director of LCB) and Michael Beare (the company's rehearsal director) were in the first cast. They have assured a fine revival and, with Norman McDowell's opulent costuming, the present cast gives an excellent account of a ballet boldly theatrical. The three dances evoke Kabuke theatre and other forms of Japanese drama without quaintness; the sense of energy and the elaborate stylisation of effects in Carter's choreography are the fruit of a sure understanding of the subject. *Three Dances* is an excellent investment for LCB's future, and one owed to the sponsorship of Citi-Bank.

Oistrakh Trio/Wigmore Hall

Max Loppert

At Saturday's Oistrakh Trio recital, according to the agent's handout, "history repeats itself as Igor Oistrakh introduces his son Valery to British audiences in the same manner that he himself was introduced by his father, David Oistrakh." Factually, the statement was correct: Valery Oistrakh was making his British debut, in company with his father Igor and the pianist Leonid Blok. But it did not feel like an occasion at which history was being repeated—or, indeed, made.

In London Igor Oistrakh's performing style (technically secure, massive, apparently impervious to spontaneous expressive nuances or emotional pressures) is well known. On the evidence of Friday's two-violin or violin-viola prformances, Valery would appear to follow his father's detached mode of audience address; but his intonation is less sure, in fact often uncomfortably sharp, and his control of phrasing is both sluggish and nervously indecisive.

In the two-violin and keyboard sonata (BMV 1037) now doubtfully ascribed to Bach that opened the concert, the younger Oistrakh played *primo;* in the Brahms E flat Trio, Op 40, better known for its horn middle voice, he played violin while his father took up the viola. Even where string sounds began to be more uniform in match—in the later episodes of both works—there was an air of blunt ordinariness about the playing that communicated itself to the listener more forcefully than anything else.

At the start of the second part, Prokofiev's C major sonata, Op. 56 (1932), for two violins seemed to promise a greater degree of engagement. The work appears to propose the start of the composer's "Soviet" period (though it was written in and for Paris): bittersweetly lyrical and motorically energetic by turns, and beautifully spaced for the instruments. But in the second movement Valery snapped a string; the perfomance seemed to lose heart after its recommencement, leaving in its place a workaday plod, shorn of sparkle and almost devoid of dynamic variation. I stole away before the Ysaye and Sarasate programme-closers.

Messiaen Festival

As part of the Camden Festival, the Royal Academy of Music is devoting six days to the music of Olivier Messiaen, with the composer present, from March 16-21. Among the venues will be the Academy and the Royal Festival Hall. Events include concerts, recitals, masterclasses, open rehearsals and exhibitions covering all aspects of Messiaen's work.

Hinge and Bracket at the Comedy

Dr Evadne Hinge and Dame Hilda Bracket, return to the West End in their own show next month. The maiden aunts, played by George Logan and Patrick Fyffe, are scheduled to open in *The Arkley Barnet Show* for a four-week limited season at the Comedy Theatre from March 3.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

February 13–19

Music

LONDON

San Francisco Symphony Orchestra conducted by Herbert Blomstedt with Isaac Stern, violin. Wuorinen, Prokofiev and Brahms. Royal Festival Hall (Mon). (928 3191).

Guildhall String Ensemble with Michala Petri, recorder. Handel, Mendelssohn, Mozart and Vivaldi. Queen Elizabeth Hall (Mon). (928 3191).

Halle Orchestra conducted by Stanislow Skrowaczewski with Rudolf Buchbinder, piano. Barber, Beethoven and Tchaikovsky. Barbican Hall (Mon). (638 8891).

City of London Choir and City of London Sinfonia conducted by Donald Cashmore with Patrizia Kwella, soprano, Margaret Cable, mezzo-soprano, Neil Mackie, tenor, Stephen Varcoe, bass and John Birch, organ. Mozart. Barbican Hall (Tue).

BBC Symphony Orchestra and Chorus conducted by Peter Eotvos with Dorothy Dorow, soprano and Sarah Walker, mezzo-soprano. Xenakis, Bartok and Ligeti. Royal Festival Hall (Wed).

City of Birmingham Symphony Orchestra conducted by Simon Rattle with Andre Watts, piano. Schoenberg, Brahms and Sibelius. Barbican Hall (Thur).

PARIS

Scottish Chamber Orchestra, Choeur de la Chapelle Royale conducted by Philippe Herreweghe. Howard Crook, Tenor, Gregory Reinhart, bass: Mozart (Mon). TMP-Chatelet (42330000)

Margarita Zimmermann, mezzo-soprano, John Fischer, Piano: Vivaldi, Tosti, Tchaikovsky, Rachmaninov (Mon). Théâtre de L'Athenée (47426727)

Salzburg Mozarteum's Camerata Academica conducted by Sandor Vegh: Mozart, Schubert (Tue); Mozart, Stavinsky, Borodin (Wed). Both at 6.30pm at the Theatre de la Ville (42742277)

Nouvel Orchestre Philharmonique conducted by Uri Segal, Joseph Kalichstein, piano: Lutoslawski, Dvorak, Prokofiev (Thur). Radio France, Grand Auditorium (45241516)

Vienna Chamber Orchestra, Sylvia Greenberg, Yvonne Kenny, Sopranos, conducted by Philippe Entremont: Mozart (Thur). TMP-Chatelet (42330000)

BRUSSELS

San Francisco Symphony Orchestra conducted by Herbert Blomstedt. Mozart, Stravinsky, Brahms (Tue).

French National Orchestra conducted by Lorin Maazel, Rimsky Korsakov, Stravinsky (Wed).

ITALY

Milan: Teatro alla Scala: Carlos Kleiber conducting Beethoven, Mozart and Brahms. (Mon). (80.91.26).

Bologna: Teatro Comunale: Münchener Philharmoniker conducted by Sergiu Celibidache, Milhaud, Debussy and Schumann (Mon and Wed). (222.999)

Rome: Auditorium in via Della Conciliazione: On Sunday, Monday and Tuesday Giuseppe Sinopoli conducts Mozart, Elgar and Sciarrino. The Münchener Philharmoniker. Schumann and Mussorgsky (Thur). (6541044)

Rome, Oratorio del Gonfalone: (Via del Gonfalone 32/A): The Quink Quintett from Holland. 16th and 17th century songs and madrigals (Thur). (68.75.952).

Rome, Teatro Ghione, Via Delle Fornaci, 37: The pianist Vlado Perlemuter, Faure, Chopin and Mozart. (63.72.294) (Thur).

NETHERLANDS

Amsterdam, Concertgebouw, Piano recital by Yuri Egorov (Tue). The Amsterdam Baroque Orchestra conducted by Ton Koopman, with Philippe Huttenlocher, bass: Bach (Wed). Charles Dutoit conducting the Concertgebouw Orchestra, with György Pauk, violin: Dutilleux, Lutoslavski, Roussel (Thur). Recital Hall: Schubert Lieder sung by Udo Reinemann, baritone, accompanied by Rudolf Jansen (Mon). Ruud van der Meer, baritone, and Rudolf Jansen, piano: Schubert, Schumann, Brahms, Wolf (Tue). The Amsterdam String Quartet: Beethoven, Mozart, Bruckner (Wed). The Dufy Quartet: Schubert (Thur). (718345).

Rotterdam, Doelen. Arie Keijzer, organ: Bach, C.P.F. Bach, Keijzer, Franck (Mon). Recital Hall: The I Fiamminghi Chamber Ensemble conducted by Rudolf Werthen, with Matthias Maurer, viola: Telemann (Tue). Robert Holl, bass, accompanied by Rudolf Jansen: Schubert (Wed). The Mondrian Quartet: Purcell, Wagenaar, Ives (Thur). (414291 1).

Utrecht, Vredenburg. The Royal Conservatory Orchestra conducted by Elgar Howarth, with Manon Heijne, soprano: Grieg, Richard Strauss, Tchaikovsky (Thur). Recital Hall: Monique Morelli with chanson settings of poems by Villon, De Ronsard and Bruant (Wed). (314544).

The Hague, Diligentia. The Hague Philharmonic Chamber Ensemble, with Lucia Meeuwsen, mezzo-soprano: Stravinsky, Schuyt, Diepenbrock, Orthel, Dohnanyi, Spohr, Jolivet (Wed). (651851).

Ward Swingle conducting the Netherlands Chamber Choir 'À la Swingle'. Tue in Groningen, Oosterpoort (131044), Wed in Nijmegen, Vereeniging (221100).

NEW YORK

Carnegie Hall: Alban Berg Quartet with Shlomo Mintz violin, Shostakovich, Beethoven, Mozart (Mon): Orchestra of St Louis. Trevor Pinnock conducting and fortepiano, Elmar Oliveira violin, Bach, Mozart, Haydn, Stravinsky (Tue); Tashi with Lukas Foss, piano. Mixed programme including Foss local premiere (Wed); Warsaw Philharmonic. Kazimierz Kord conducting, Misaha Dichter piano. Tchaikovsky, Rachmaninov, Lutoslawski (Thur). (2477800)

New York Philharmonic (Avery Fisher Hall): Krzysztof Penderecki conducting, Paul Neubauer violin, Jan DeGaetani mezzo-soprano, Simon Estes bass-baritone. Penderecki, Shostakovich (Tue); Krzysztof Penderecki conducting, Maxim Shostakovich conducting, Mstislav Rostropovich cello. Penderecki, Haydn, Tchaikovsky (Thur). Lincoln Center (8742424)

Music at the Crossroads (Withney Museum Branch): The third annual American Sampler this week features young American composers Laura Karpman, Bright Sheng, Michael Torke (Tue, 6pm) Sculpture Court, Philip Morris Bldg, 42nd & Park.

Saleroom/Antony Thorncroft

Song of sixpence

There is no question that the most important auction this week is the sale at Sotheby's of over 400 drawings and watercolours from the collection of the late Sir John Witt, who bought constantly from the mid 1920s up to his death in 1982, acquiring top quality watercolours and drawings of every school and period at what today seem like ridiculously low prices.

For example, on offer is a Gainsborough landscape estimated at up to £30,00 for which Sir John paid 20 shillings when a student at Oxford. A Thomas Girtin view of Hereford Cathedral sold for £82 in 1970 and is now valued at up to £80,000. But there are also many modestly estimated items in the finest single collection sale of its kind for years.

Many prices are certain to be way above forecast and there will be artist records by the dozen, including one for Sir John's pet painter, William Henry Hunt. The Old Master section may not be of the strongest, but modern British artists, like Ambrose McEvoy, Nash, Wood and Fry, are well represented.

Tomorrow Christie's holds an auction of coins with some very intriguing lots, not least a sixpence which was one of the earliest coins struck for the English colonists in the Americas. It was issued about 1616 in the Sommer Islands, now Bermuda, and is known as "hogge money" in recognition of the thousands of hogs that run wild on the island. This coin is in good condition and should sell for £5,000.

By co-incidence another sixpence minted in 17th century America—struck in 1658 for use in Maryland—is also in the sale and could realise £2,000 while a Massachusetts shilling of the 1660s is estimated at up to £1,000. Most remarkably both these coins have been in the same family since 1695.

Bonhams makes a speciality of organising sales linked to events in the London calendar. Today it is selling over 750 lots with a doggy theme to coincide with Crufts. The auction is in two parts — at 11 am and 6 pm.

The highest price may well be paid for a watercolour portrait of a King Charles spaniel, "Jeannie," which is reported to have been the favourite dog of Queen Victoria. It is portrayed by Gourlay Steell seated on an ermine rug and velvet cushion and guarding a pair of gloves and a sword. The painting is estimated at up to £6,000.

A sentimental Victorian genre picture of a giant Newfoundland offering his paw to a little girl half his size, by Byron Webb, is estimated at up to £6,000, but there is a head study of a Newfoundland with a £40-£60 forecast. As well as paintings, dog collars, ceramics, bronzes and pipes, car mascots, scent bottles, etc, modelled on canine themes, will be included.

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BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday February 16 1987

Gorbachev's new look

MR MIKHAIL Gorbachev is due to address a group of prominent Westerners about his new approach to domestic and international affairs in Moscow today. No doubt that helps explain the timing of the release from prison of Mr Josef Begun, the Jewish dissident, at the weekend. Another 140 political prisoners were released last week—the largest single batch to go free since de-Stalinisation in the mid-1950s.

Where the Begun case looks exceptional is that the decision could be said to have been taken in response to—or at least in spite of—demonstrations. Previous Soviet administrations have tended to batten down the hatches at the first sign of open protest. Mr Gorbachev has not.

Reservations

Yet it must have been a close run thing: the harrassment of Soviet Jewish demonstrators on the streets in the past few days suggests that it is not easy to get the message of liberalisation, if that is what it is, all the way down the line. Also, although Dr Andrei Sakharov was released from internal exile and allowed to return to Moscow, scarcely a word of that has appeared in the Soviet media.

There are other reservations. Far more political dissidents are still behind bars than those who have been let out, even if some of their sentences are now said to be under review. Other Soviet citizens remain detained at the Kremlin's displeasure for their lack of Marxist practice or their propagation of religion. The system continues to be essentially arbitrary.

The Soviet penal code is being officially re-examined. If the result were to be the dropping, or even just a narrower definition, of article 70, which makes "anti-Soviet agitation" a criminal offence, an historic step forward would have been taken. But it has not happened yet.

Quite apart from conservative leaders in the Kremlin who may be urging Mr Gorbachev to go slowly, there are others in Eastern Europe who will not take kindly to a whiff of liberalisation. The hard-line leadership in Czechoslovakia has already spoken out loudest and strongest. Since 1968 the regime in Prague has kept itself closely attuned to conservatives in Moscow; it begins to feel threatened when the Soviet General Secretary sends a different signal.

Other Soviet allies may be less nervous. Yet it is striking that only Hungary, farthest along the path of economic and political reform and the least intolerant of dissent, has actually welcomed Mr Gorbachev's latest moves.

It would be naive to assume, however, that the Soviet leader has not thought of at least some of the difficulties presented by his new policies in advance. Any authoritarian regime finds it hard to liberalise because the population tends to ask for more than was originally on offer, and to want it faster, while the conservatives in the regime tend to fight back. Also, it is very difficult to liberalise in one sphere—say, the economic—without liberalising in others—say, the political and cultural. Recent events in China bear that out. Besides, it must be a reasonable hypothesis that the Soviet leadership does not want to provoke any more upheavals in Eastern Europe, and is bound to tread carefully.

Nevertheless, it looks as if Mr Gorbachev has concluded that his country, although militarily a superpower, is economically retarded, and that the price for modernising the Soviet economy is some opening up of Soviet society, both internally and in its contacts with the outside world.

Tentative steps

It is a risk that he has chosen to take: the first steps are still tentative and the outcome is uncertain. In particular, it is far from clear that the new approach at home will lead to any fundamental changes in Soviet foreign policy. Yet it would be foolish of the West to pretend that nothing is happening; there could now be calmer discussion of arms control, regional disputes and trade issues on which so little progress has been made in the past few years.

Big Bang: so far, so good

BIG BANG has not had a very good press. The Stock Exchange's trading system got off to an embarrassingly awful start last October, when a series of electronic foul-ups seemed to cast doubt on the viability of the whole market-place. Then came the disclosures of the Guinness scandal, which actually took place months before Big Bang but which has still managed to give financial deregulation a sleazy image.

Yet this impression is misleading. There is a clear message to be drawn from our recent series on the first 100 days of the City revolution, and from the latest Bank of England bulletin, and it is surprisingly positive.

In the first place, the mechanics seem to be in order. The evidence for this is the scale and speed in which the Stock Exchange has been transformed from a traditional floor-based market into a telephone system operated from brokers' own dealing rooms. The Bank of England estimates that by the end of last December, about 95 per cent of business other than traded options was being conducted away from the floor. This could not have happened if the dealers had distrusted the new communications networks.

Lower costs

There are also clear signs that increased competition is having the effect that it is supposed to: the quality of the market is improving, and transaction costs are sharply lower. Before Big Bang, relatively few equities were traded in by more than five market-makers. Now the most active stocks, accounting between them for more than 90 per cent of market turnover, are traded in by at least six market-makers. This increased liquidity should help to lower the cost of capital for companies and widen the opportunities for investors.

Transaction costs on trading in large lines of shares have been cut roughly in half, and fears that the small investor would have to pay a lot more have not so far been realised. Retail customers are being offered a wider range of services and their business will be sought after even more actively once the automatic system for executing small orders has been installed later this year.

Those who argued that the new trading system would discourage the making of markets in the shares of smaller companies have also been proved wrong. Much increased competition at the most liquid end of the market has led dealers to look for trading niches further away from the front-line, leading to a greater volume of activity in second and third line shares. The Unlisted Securities Market seems to be flourishing and the Third Market has been launched, allowing very small or young companies to find a low-cost market for their shares in a more open and better regulated environment than had been available in the past.

Mutual support

Regional companies and investors can also hope for improved services. A number of provincial broking firms have formed themselves into groupings which will give them access to new capital and shared services while retaining their independence. Businesses with strong local support for their shares are all too rare in the UK, but there are plenty of examples in the US of the advantages of such a close relationship.

On the regulatory front, the merger of the markets in domestic and international equities has taken place with a degree of smoothness that would have seemed unthinkable a year ago. The Financial Services Act—the most comprehensive overhaul of investor protection law for more than 40 years—is proceeding on track. Important progress is being made towards the regulation of security markets across frontiers. The UK and the US have agreed on a framework of mutual support, and further bilateral agreements involving the UK are in view.

Of course, a lot could still go wrong. The main unresolved questions are about regulation and capacity. Grave doubts remain about the likely effectiveness of the so-called Chinese Walls between different departments of a financial conglomerate. And, as expected, the securities firms are not making a satisfactory return on large parts of their capital, especially in the gilt-edged market. This is an unstable and unsustainable position, and a shake-out is inevitable sooner or later. So long as the pain is confined to the securities industry and the public is protected, this need be no bad thing.

INSIDER DEALING

Handcuffs and tears on Wall Street

By James Buchan in New York

● Martin Siegel

Rudolph Giuliani ●

MR JOHN SLAVINSKI, a senior investigator with the US Postal Inspection Service, was asked on Friday why his men had handcuffed the three distinguished Wall Street investment bankers they had just arrested. Mr Slavinski looked startled by the question. He blinked shyly in the television lights and said it was standard practice. "We have to protect our agents at the time of arrest."

A shoot-out at Goldman, Sachs may sound absurd, but the investigators are used to violent criminals. Mr Rudolph Giuliani, the US Attorney in Manhattan who is leading the far-reaching investigation into Wall Street insider trading, made his name from a series of spectacular prosecutions of mafia bosses. He is unimpressed with the prestige of the investment bankers, their million-dollar salaries, their expensive Manhattan apartments and week-end houses in New England, their photographs in annual reports looking busy or responsible.

For Mr Giuliani, insider traders are just another set of hoodlums, but easier than mobsters to prosecute. They inform better. "It's safer," he said last week, "and they roll much easier."

The investigation by Mr Giuliani and the Securities and Exchange Commission into the arcane practice of stock trading on insider information last week turned into something much bigger: a full-scale national tribunal on Wall Street's conduct during the wave of takeovers that has reshaped corporate America and altered the lives of thousands of Americans. Wall Street was on the stand and it did not look good.

The public was treated to a set of allegations that individuals and one bank systematically profited from price-sensitive information received in confidence from their corporate clients. Because shareholders only give up their companies at a premium, information on takeover bids raise market prices, sometimes dramatically. With competition eating up profits at more traditional activities, more and more Wall Street investment banks have institutionalised dabbling in takeover stocks by setting up departments for what is grandly termed "risk arbitrage."

The stock market managed to get through last week's allegations with only a minor drop on Thursday, compared with the very sharp fall in the price of takeover stocks last November when Mr Ivan Boesky, a well-known takeover speculator, agreed to disgorge $100m in fines and profits made out of illegal insider trading. Takeover activity is already sharply down this year, partly because of the investigators' cloud hanging over the market and partly because of changes in the tax laws. However, the market has yet to digest fully some unpleasant prospects: more strident calls from Washington for tighter regulation and, conceivably, a flood of law suits against those banks that harboured insider traders, even unwittingly.

Ironically, the arrests took Wall Street by storm just when the investigation seemed to be losing the momentum built up in November when Mr Ivan Boesky, a well-known stock speculator, agreed to pay over $100m in profits made out of insider trading.

On Wednesday, Mr Giuliani seemed to confirm reports that bankers were refusing to co-operate or invoking fifth amendment rights to keep silent. Without co-operation, insider trading is notoriously hard to prove in court. The investigation, Mr Giuliani said, could take "six months or a year to complete."

Some lawyers believe that the SEC and Mr Giuliani had decided Wall Street needed a reminder. That evening, Mr Timothy Tabor was taken handcuffed from his East Side apartment and jailed for the night. Mr Tabor, 33, a former Rhodes Scholar and a chartered accountant, is typical of a new generation on Wall Street: restless, exceptionally hard-working and just as fond of money. His sister described him as a "yuppie on a very high scale." His speciality is risk arbitrage and he has moved on and up from Kidder, Peabody to Chemical Bank and then to Merrill Lynch. But he departed from Merrill, apparently because he had invested aggressively in stocks which collapsed with the Boesky revelations in November.

It was Mr Tabor's period at Kidder, particularly 1984 and 1985, that interested Mr Giuliani. On Thursday, his former colleague in the arbitrage department of Kidder, Mr Richard Wigton, 52, a well-liked and low-key banker who had been at the firm for 20 years, was led away from the bank, handcuffed and in tears. Meanwhile, across at Goldman, Sachs, Mr Robert Freeman, 44, a partner responsible for risk arbitrage, was also being arrested. The three were charged in court with swapping "material non-public information" on their corporate clients' strategies, resulting in "millions of dollars of illegal profits to Kidder" and helping Mr Freeman to trade on his own account.

Up to that moment, Wall Street had tried to argue that Mr Boesky was always a colourful outsider who had picked up a few "bad apples" such as Mr Dennis Levine, a managing director at Drexel Burnham Lambert, to pass him tips. The message from the imposing courthouses uptown was the opposite. Here were people accused of making money illegally not for themselves but their firm, and getting their tips from a general partner at Goldman, Sachs, perhaps the least mercenary and star-struck of Wall Street houses and the most respected for its devotion to its clients' interests. In fact, Goldman had only reluctantly bowed to fashion and started handling hostile takeovers and equally reluctantly started speculating on them with the bank's capital.

All three men denied wrongdoing and Wall Street was puzzled that Mr Giuliani had dared to bring the case without co-operation. But in the midst of the charges, Mr Giuliani and the SEC dropped their second bombshell: a confidential source, known by the codename CS-1, who had worked at Kidder in 1984-85, admitted to involvement in the ring and "provided very extensive details."

It did not take Wall Street long to identify CS-1 as Mr Martin Siegel, 38, who had just sold a $3.5m country house. Lured away last year from Kidder to be co-head of corporate finance at the brash and fast-growing Drexel Burnham, Mr Siegel is good-looking, boundlessly confident and rich. He is also one of the most imaginative deal-makers in Wall Street, responsible for such celebrated and risky manoeuvres as Martin Marietta's "Pac-Man" defence against Bendix in 1982, where Marietta turned round and counterbid for Bendix.

However, according to a bulky complaint from the SEC, he told Mr Boesky what he was doing with Marietta and three other large deals while at Kidder, which netted Mr Boesky just under $33m in direct profits. In return, the SEC says, Mr Boesky's agents handed over $700,000 in an infantile arrangement, whereby cash changed hands in a briefcase on a password and at a "conspicuous public location." Later Mr Boesky led the investigators to Mr Siegel.

On Friday, looking dignified but with tears in his eyes, Mr Siegel pleaded guilty to insider trading in the Kidder/Goldman case and to fiddling his taxes in 1985. He settled with the SEC on the Boesky charges by paying across $9m, half in cash and the rest his equity interest in Drexel.

The new allegations reveal that Mr Boesky's Wall Street contacts were at a very high level and he was taking illegal tips as early as 1982.

It is possible that Mr Siegel informed Mr Boesky about every price-sensitive deal Kidder arranged from 1982 at least until late in 1985, when the SEC says Mr Boesky stopped paying. That could mean that Kidder and its main shareholder General Electric, which will probably have to give up any illegal arbitrage profits made in its name, will be deluged with lawsuits. Companies such as Nestle, Marietta, Texaco and Diamond Shamrock may be able to argue that Kidder's insider traders and Mr Boesky bid up the stock prices of their acquisitions or attempted acquisitions (Carnation, Bendix, Getty Oil and Natomas respectively). The same could happen to Goldman and its outside investor, Sumitomo Bank of Japan.

Equally, the arrests and Mr Siegel's guilty plea will increase the pressure to tighten the regulation of securities markets and to curb takeover activity, which is seen as the prime opportunity for illegal profiteering. The pressure is coming not only from businessmen, from such scarred victims of takeover battles as Mr Fred Hartley of Unocal and Mr Robert Mercer of Goodyear, but in Washington itself.

There are no fewer than nine bills to reform takeover rules before Congress. "What Mr Giuliani is doing is going down real well in Washington," said Mr John Stoppelman, a lawyer with wide experience of securities regulation.

Whatever happens in Washington, the investigation is bound to throw up more victims. Mr Giuliani describes it as "very active." Lawyers familiar with the SEC say that as the inquiry has widened, so the commission has become deeply interested in Drexel Burnham and above all in its controversial and highly profitable "junk bond" operation in Beverly Hills.

The operation, run by Mr Michael Milken, a secretive man described even by critics as a brilliant banker, has financed a spate of heavily leveraged takeovers and buy-outs through selling investors low-grade, high-yielding paper secured on the assets and cash-flow of the target company.

The SEC says that Mr Siegel stopped receiving money from Mr Boesky while still at Kidder in late 1985, when a planned payment of "several hundred thousand dollars" did not materialise. Drexel itself issued a terse statement on Friday pointing out that all the Siegel allegations concerned matters "prior to his joining the firm one year ago." However, lawyers believe that with Mr Siegel, Mr Boesky and Mr Levine all co-operating, the investigators are at least well positioned to examine the Drexel operation.

"Mr Siegel's co-operation has been very valuable," Mr Giuliani said. "Like Mr Boesky's."

BEHIND THE TAKEOVER OF CARNATION

Mr Siegel proved most useful to Mr Boesky by passing secret information about the Carnation Company, the Los Angeles food processing group, which accepted a $2.9bn bid from Nestlé of Switzerland in September 1984.

According to Mr Gary Lynch, chief investigator for the SEC in the insider trading case, Mr Boesky cleared $28.3m in profits directly attributable to Mr Siegel. In court on Friday Mr Siegel settled with the SEC without admitting to the charges. He agreed to pay $9m, to co-operate with the investigation and to be barred from the securities industry. Mr Lynch set out the SEC's position in a long document filed with a US district judge in Manhattan.

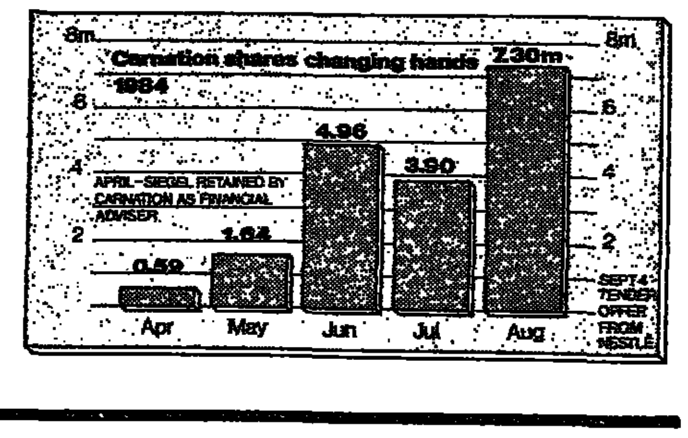
The takeover of Carnation is a classic example of how Mr Boesky had access to information that the market as a whole did not possess.

In April 1984, the SEC says, Kidder Peabody was retained as adviser by Carnation, a solid, cautious and well-managed company distinguished for the invention of milk powder. But the Stuart family, which had founded the business in 1899 and still held 30 per cent of it, apparently wanted Kidder to help in finding a buoyer.

The SEC says that Mr Siegel learned "material non-public information concerning the interest of a controlling shareholder in selling his controlling position in Carnation." The SEC says that Mr Siegel passed this information onto Mr Boesky. From June 6 to August 27 Mr Boesky bought 1.7m shares at prices ranging from the mid $50 to about $71. Other arbitrageurs piled

But despite rumours of imminent takeover in the press in June, and two stock exchange inquiries in August, Carnation said that it knew of no reason for the surge in its share price.

On September 4 Nestle announced a tender offer for Carnation at $83 a share and the share price rose to match. Mr Boesky sold out and reaped his immense profit.



Men and Matters

Star wars' uncertain gleam

Working for President Reagan's Star Wars programme offers a head start these days for those ambitious to make a career in the US defence industry.

Dr Gerold Yonas, former deputy director and chief scientist of the strategic defence initiative organisation, the Pentagon body overseeing the project, has just become president of the technology division of Titan Corporation, a leading US defence systems group based in San Diego.

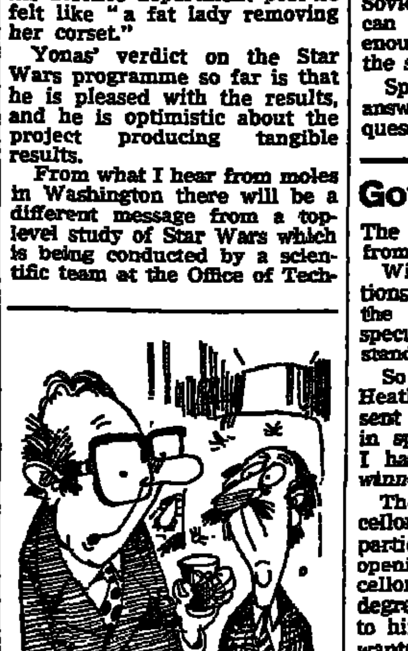
Yonas says that in leaving his defence department post he felt like "a fat lady removing her corset."

Yonas' verdict on the Star Wars programme so far is that he is pleased with the results, and he is optimistic about the project producing tangible results.

From what I hear from moles in Washington there will be a different message from a top-level study of Star Wars which is being conducted by a scientific team at the Office of Technology Assessment, a research arm of Congress.

Having already produced a critical report on SDI in 1985 the office has now been commissioned to home in on two important aspects of the programme. Can an operational anti-missile shield survive Soviet counter-measures? and can scientists construct good enough computers to control the system?

Speculation is that the answers from the office to both questions will be "No."



"Spent a fortune on Valentines — no life peerage, not on the BBC short list, and my phone still doesn't work."

Gown provided

The Oxford dons are suffering from a bout of election fever.

With the deadline for nominations for the chancellorship of the university on March 2 speculation is rife over who will stand, let alone who will win.

So far Roy Jenkins, Edward Heath and Lord Blake have sent in their nominations but in spite of all the excitement I have to point out that the winner's prize is a dull one.

The duties of Oxford chancellors are neither varied nor particularly taxing. Apart from opening new buildings the chancellor is expected to attend degree ceremonies but it is up to him to decide how often he wants to sit through them.

Harold Macmillan went every year but his predecessor, Lord Halifax, sometimes gave them a miss, saying the vice-chancellor should have a go.

No stipend, unlimited expenses account, trips abroad, or chauffeur driven limousine, accompanies the job.

The only perk is the £9,000 gown for processions through the streets. Made of black brocaded silk with gold laced trimming, the 60-year-old robe comes complete with a cap of black velvet and a gold tassel.

Perhaps that makes it all worth while.

Dished

Professor Alan Peacock is stuck with a bulky hangover from his days investigating the future of broadcasting for his recent report.

It is a satellite dish, nearly 6 ft across, at the bottom of his Edinburgh garden. It was installed by the Home Office to allow him to see the new international cable television channels.

More than six months after his committee reported, and he went off to be chairman of the Scottish Arts Council, the dish is still delivering 20 channels of television to the Peacock household. His wife Margaret wants to be rid of the beast—"It's where the snowdrops used to grow," she complains.

The Home Office asked for it back—they don't have one of their own. But since Peacock sent them a postcard pointing out it is set in concrete there has been a deafening silence from official quarters.

Limited chivalry

What is an English gentleman's word worth in hard cash.

About £15,000 at best, according to Trevor Abrahmsohn, a director of London estate agents, Glentree Estates, which daily experiences the problems of getting people to support their aspirations for new homes with hard cash.

Glentree has been running a campaign to minimise "gazumping" by insisting on both parties to a house transaction shaking hands and exchanging a verbal oath of commitment.

Abrahmsohn reports, sadly, that in his experience, if the seller is offered more than £15,000 extra he will usually renege on the first deal.

Behind the Bar

The creation of a City of London livery company for barristers is suggested by John Phillips, QC, in the Bar's journal Counsel.

It is time, he argues, for barristers to take their place alongside solicitors, accountants, arbitrators, and other professionals to be found among the City livery companies.

Many senior barristers practise in chambers. Others work as legal advisers, company lawyers, or as secretaries to national and international bodies based in London.

Traditionally the livery companies have been guilds of money-makers — traders and craftsmen. The barristers' case for having their own livery is that collectively they make a significant contribution to Britain's invisible earnings.

A livery company, says Phillips, would also identify the Bar as "a separate, important and senior profession, providing service of a high intellectual order for the country's economic and political life."

A more mundane reason is that it would be a morale booster for the legal eagles in these changing times.

Phillips thinks a livery company would help revive the Bar's esprit de corps.

What should such an illustrious new band of brothers and sisters be called. I offer a suggestion — The Worshipful Company of Word Processors.

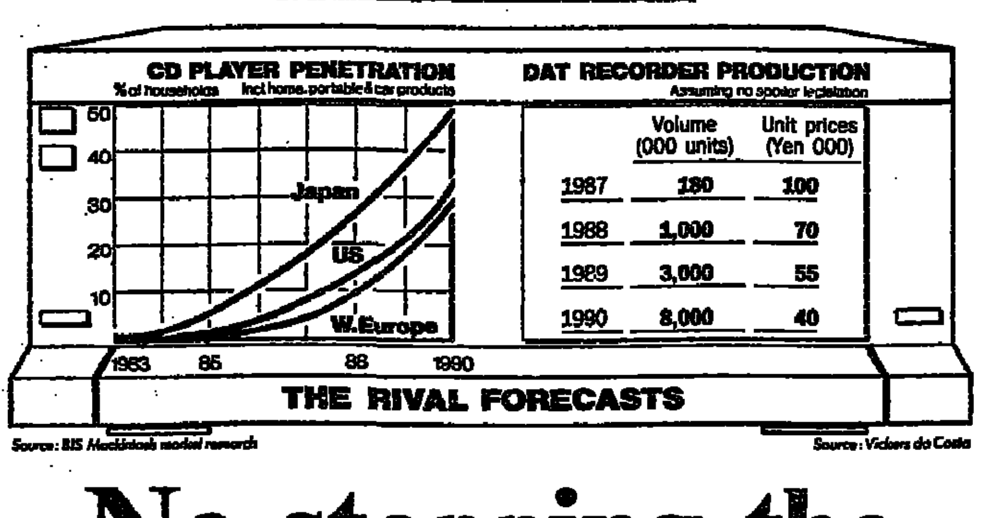
Double-edged

Why are Poland and the US exactly alike?

In the US you can't buy anything with zlotys; and you can't buy anything with them in Poland, either.

Observer

THE AUDIO WAR



Source: BIS Mackintosh model research   Source: Vickers da Costa

No stopping the DAT revolution

By Carla Rapoport in Tokyo and David Thomas in London

IN THE next month or so, it will be available in Japan. In about six months, it will reach the US—and by the end of the year, Europe. Within two years, it is likely to be the fastest growing consumer electronic product in the world.

Digital Audio Tape (DAT) appears to be unstoppable. The latest brainchild of the Japanese consumer electronics industry, it is on its way despite the international music industry's attempts to block or cripple it.

The DAT controversy puts a spotlight on a most unusual trade dispute, one which pits technology against a legal principle: should a tape recorder be deprived of its recording function in order to satisfy copyright owners? The music industry says yes. Japan says no.

DAT offers perfect sound reproduction, comparable to compact disc (CD), on erasable, long-playing cassettes. Its very perfection is at the heart of the controversy. The Western music industry says DAT's ability to copy music flawlessly will open up worldwide pirating of copyrighted sound.

The Japanese, however, look at the same product with parental pride.

"It's the newest, It's the best. Consumers will want it, they already do. Nothing, really nothing, can stop that," says a senior executive at one of Japan's leading electronics companies.

Maybe, retorts the western music industry. But it could lead to an explosion of home taping, which would undermine the industry's royalty income. Some senior executives even claim that it threatens the industry's very existence.

"DAT will surely aggravate the already disastrous effects of home taping. Its copying quality is so perfect that it reaches the quality of a studio master," says Mr Nesuhi Ertegun, head of Warner Brothers records. He has communicated this view to the Japanese on behalf of the International Federation of Phonogram and Videogram Producers (IFPI) representing 640 music companies worldwide.

The industry is rooting for legislation to force DAT machines and tapes to carry an anti-copying device known as a spoiler. A bill on these lines was introduced in the US senate this month.

Stanley Gortikov, president of the Recording Industry Association of America, argues that there are few vested interests to oppose legislation. "Consumers have not invested any money in it, nor have retailers invested any money in it. So it's an ideal time to bring legislation in."

However, EEC officials seem reluctant to agree to the full demands of the industry. They realise that a spoiler would be seen as anti-consumer and would undermine DAT's key advantage — near perfect copying.

A compromise, which appeals to some Community officials, would be for buyers of records and music cassettes to be able to choose between a cheaper version of cassette which could not be copied at home, and a more expensive one which could. Revenue from the additional charge would be paid to music copyright holders.

Mr Toshio Takai, formerly a senior official at the Ministry for International Trade and Industry (MITI) and now president of the Electronic Industries Association of Japan, minces few words on the DAT issue. "I think this kind of protectionist movement is completely wrong. Basically the copyright problem of the music industry is not suitable for the macro level. It needs to be dealt with in each country, according to the law."

He and others accuse the IFPI of Japan-bashing to build international sympathy and postpone the inevitable development of enjoyable audio technology. "If they would like to protect copyright, they don't need to come to us, they can go to each country and work on that claim. In my opinion, it is impossible to make a law to make anti-taping devices mandatory," he says.

If the music industry agreed not to make DAT pre-recorded cassettes, such a move would violate anti-cartel laws, he adds.

So far, PolyGram and EMI Music, the biggest European music companies, say they will refuse to make their copyright material available for pre-recorded DAT tapes if there is no agreement with the Japanese on an anti-copying device. But it is doubtful if they can hold this line unless other major music companies follow suit.

For their part, the Japanese are holding two aces. One is the benefits which DAT has over both conventional tape recorders and compact discs. The second is the will to triumph over the new stronger yen which is cutting deeply into sales of older products, such as video cassette recorders, televisions and conventional audio products. While South Korea runs away with the television and low-end VCR market, Japan desperately needs a high-tech winner.

Japan desperately needs to see DAT's attractions turned into sales

DAT's advantages include:

● Small size. The DAT cassette is about half the size of an ordinary compact cassette. Made like a miniature VCR cassette, with the tape protected inside the case, it is more robust.

● Longer playing time. The first DAT cassettes will play for two hours, with no need to turn the cassette over: Each song will be coded, so when the listener pushes a button the machine advances to the desired track.

● Perfect sound reproduction, with virtually no deterioration of the tape regardless of number of times it is played.

These features make the product a natural for the in-car audio market. Although early cassettes will play for only two hours, executives at JVC say that ultimately DAT will offer six hours of recorded music on one cassette. They expect to see DAT players introduced in Japanese cars by the end of this year.

Japan desperately needs to see all these attractions translated into sales. The country's exports of consumer electronics slid by nearly 25 per cent in the first nine months of 1986; television set output was down by 20 per cent and audio equipment by 30 to 40 per cent. Operating profits for the electronic industry in the April-June quarter last year fell by more than 60 per cent.

The first company expected to launch DAT, AIWA, reported a net loss for the year to October of Y9.73bn (£42m), blaming the high yen and sluggish demand for audio products. AIWA says it will launch the new product next month, in time for the spring sales. Others, such as Toshiba, Sony, JVC and Matsushita are expected to follow soon.

Even the boom in CD sales is not putting off the Japanese. Although market penetration of CD players remains relatively low, Mr Tatsuo Sawada, a senior manager at JVC, points out that, at 10m, the output of CDs in Japan last year was close to the peak annual output of conventional tape recorders reached about a decade ago. He says the industry expects CD output to level off, leaving plenty of room for DAT.

It is the compact disc which is most at risk from DAT. Although the music industry insists that in the longer term the two could co-exist, it is worried about the immediate effect. "The premature introduction of DAT machines on the consumer market could have the same impact on CD as the compact cassette had on the black disc in the 1970s," the IFPI's 1986 review warns.

CD sales only began to gather momentum last year. More than half the CD players in use were acquired in 1986, according to figures from BIS Macintosh, a UK-based market research organisation.

Despite recent growth, CDs remain a minority medium. Less than 5 per cent of homes in Europe and the US have them. Sales, inhibited by price, are still dwarfed by LPs and cassettes. But the industry believes that CD prices are set to fall and many are predicting a steady increase in CD penetration of all markets.

Will that progress be immediately reversed by the impact of DAT? Mr Jim Bottoms, an analyst with BIS Mackintosh, says: "It will be well into next year, at the earliest, before we know whether the smooth growth path of compact discs will be knocked off course by DAT.

"Volume exports of DAT will take time to build up, even if, as is now generally expected, the first machines hit Europe and the US this year. Industry executives in Japan say about 150,000 units will be produced in Japan this year, with about half going overseas. Equally important, the first DAT machines will be expensive—probably costing between Y170,000 and Y200,000 (£855).

Some observers believe DAT machines will stay more expensive than CD players, but Mr Jan Timmer, president of PolyGram, disagrees: "I don't think that talking about a lasting price gap between compact discs and DAT is realistic."

And whereas Western manufacturers and retailers were notoriously slow off the mark with CDS, some are already alive to DAT's potential. JVC says more than 15 manufacturers have said they would like to be involved with DAT and more than ten of these are European.

The odds are that the Japanese will win the DAT war, and win handsomely. For their manufacturers are offering what promises to be a major advance for consumers: few Western politicians will want to go to the stake in such a battle.

Beyond the pall

SOME 4m New Yorkers are in for a rude shock when they come into work on Thursday, May 7.

They will be picked out by their managers, separated from colleagues and herded into gloomy airtight cells, there to be kept in isolation from their co-workers until the day is done.

When they travel home, they will be spurned by taxi drivers and reprimanded as they step into the railway station. When they attempt to cash a cheque they will be shown the door by bankers, and even shopkeepers will treat them as pariahs.

If they should venture into a restaurant, they will be brusquely shoved towards a dark corner table. And if they go to see a movie, play or even boxing match, these too will fail to lift their sorrows. For after May 7, they will endure the rasping tightness in their chests until the evening is completely over, with no hope of a remission during the interval in a theatre lobby or bar.

May 7 is the date when the most wide-ranging anti-smoking regulations ever implemented in the US will come into effect, following a vote a week ago by the New York state public health council. The regulations, described by the Tobacco Institute as "far and away the most punitive, extreme and absurd" restrictions on smokers' rights in the US, cover all indoor spaces other than private homes, bars and hotel rooms in the State of New York.

In banks, shops, theatre and building lobbies, indoor stadia, stations and other public spaces, smoking is banned outright. In restaurants, smokers must be segregated, with 70 per cent of seats reserved for non-smoking patrons unless it is specifically demonstrated that fewer non-smoking spaces will be "sufficient to meet customer demand." In the workplace, a smoke-free environment is mandated for all non-smoking employees and employers are subject to criminal penalties of up to 15 days' imprisonment if they fail to provide one.

And while the public health council contends that enforcement will be flexible—for instance that smokers will not have to be moved out of open-plan offices unless there are actual objections from non-smokers—it is determined to enshrine in law the principle that "non-smokers will be favoured over smokers in any dispute."

Tobacco industry executives have in the past condemned this principle as the "work of zealots—a fringe element bent on modifying Americans' behaviour to conform to their own interpretation of utopia."

This may be partly true, but zealotry and regimentation have always sounded a discordant counterpoint against the rhetoric of liberty and individualism in the American dream.

From prohibition onwards, America has struggled in confusion whenever one man's freedom clashed against another's—allowing machine guns and explosive bullets to be sold by mail order, but forbidding sale of alcohol to anyone under 21; permitting 16-year-olds to drive cars almost without instruction, but setting speed limits of 55 miles an hour on superhighways "to save lives"; showing pornography on cable television, but turning a blind eye when abortion clinics are bombed by puritanical crusaders.

Amid such cross-currents of license and prohibition, restrictions on smoking seem likelier to be tightened than relaxed. They do at least appear to have a medical rationalisation. For evidence is mounting that even "passive" smoking—inhaling fumes produced by other people's cigarettes—can sometimes kill.

Before New York, there were 10 other states and dozens of municipalities with similar if less draconian anti-smoking laws already on their books. Others are almost bound to follow as a result of last year's finding in a National Academy of Science study that passive smoking may cause around 2,400 deaths a year.

The tobacco industry has naturally disputed these studies, claiming for instance that it would take 24 days of uninterrupted working in an average New York office to be exposed to the nicotine equivalent of one cigarette.

But the tobacco companies' credibility on public health issues is negligible and even if their political influence is still considerable, it has been all but overwhelmed by an extremely strongly worded statement put out last December by the US Surgeon General. This amounted almost to an official call to arms: "To fail to act now (against passive smoking) would be to fail in our responsibility to protect the public health," he said.

But even if the cigarette companies could resist the tide of anti-smoking legislation, the days of public smoking in America—particularly in the workplace—would probably be numbered.

For employers themselves are putting the squeeze on smokers even in the absence of legal compulsions. A survey by the bureau of National Affairs last year found that 36 per cent of the 662 companies questioned—including IBM, General Motors, Bank of America, Aetna Life and Procter and Gamble—already had restrictions on smoking, while another 23 per cent were planning or considering such moves.

One reason for companies to act was seen in a lawsuit filed last December in Washington state—the first action to claim damages against an employer, in this case from the state government, for a debilitating lung disease allegedly caused by exposure to cigarette smoke at work. Now that the Surgeon General has publicly warned against passive smoking, multitudes of other suits could follow and employers may have difficulty pleading ignorance as a defence.

Even more important, employers obviously care about their workers' health, comfort and social preferences. As more Americans give up cigarettes—only 32 per cent of adults smoke today, compared with 60 per cent 20 years ago—the social as well as the medical and legal pressures against the dwindling minority of smokers are bound to intensify.

The tobacco industry has never managed to live down the smug mendacity of its early advertising slogans. R. J. Reynolds, for instance, used to urge customers to smoke Camels for "a harmless restoration of the flow of natural body energy." But for the beleaguered smokers struggling against a hostile American society, Camel's current slogan does have the ring of truth—"smoke Camel and begin a new adventure."

Anatole Kaletsky

Letters to the Editor

A philosophy of education

From Mr D. A. A. Fagandini

Sir,—I doubt if Joe Rogaly (February 11-12) is entirely correct in stating that we have no philosophy of education in this country. What we have is surely the remnant of a firm Victorian approach that has outlived its purpose.

We must bear in mind that Great Britain experienced the one and only Industrial Revolution and that this enormous step in wealth creation was achieved without any scientific input even though the country was justly famed for its science. The industrial leap forward was made by highly ingenious and individual craftsmen but the appalling conditions in which they and their labourers worked became abhorrent to those who benefited most from the wealth being generated from such misery.

It then became increasingly necessary to calm the conscience of those who could afford one, so the provision of education for the "lower orders" was conceived as a means of rescuing any talent in the academic arts there may have been at that level of society. The great museums were erected for a similar purpose and our recent arguments about entrance fees echo the concern of those earlier times.

At no point was education ever related to industrial activity, whether in matters of science, technology, design or working conditions. Indeed the very opposite was the case and the workforce itself felt no need for science where experience and practical knowledge had proved paramount. Very few took note of the efforts on the Continent to overcome our apparently impregnable position, based as it was on indigenous coal and iron-ore and an endless supply of brawn and craft. Almost no one noticed how, across the Channel, a scientific discipline such as thermodynamics was developed and applied to the engineering of the internal combustion engine, to quote but one example.

Down the years the original purpose of our educational philosophy has been virtually forgotten though we have yet to discard the machinery by which it was to be achieved. In losing sight of the purpose we missed the need for change until suddenly all became clear: we had been left far behind in the application of trained intellect to the all-important matters of wealth creation by manufacturing industry. Worse, our academic institutions had not secured the means by which they were to be sustained in their equally important endeavours. The clamour all around us is now deafening, and no wonder; we know now that the world will not stand still while we change gear.

As we argue our way towards a fruitful understanding of the relationship between the "global market-place" and the "rounded adult able to get the most out of life" we should bear in mind the historical background of which the country can be proud. What we cannot be proud of is the way in which we are so often blinded by a clouded view of our past to the point of seriously jeopardising our future.

D. A. A. Fagandini.
6 Alleyn Park,
Dulwich, SE21.

How not to teach maths

From Mr G. Dove

Sir,—Some talented and skilled people who speak maths (a foreign language?) and practise its application (engineering?) do not understand that the requirement for these skills is not self-evident to those who do not speak and practise them.

I support Michael Dixon (January 30), the sooner that the value of speaking maths and practising its applications is appreciated by the market; the better for employment, wealth creation and the economy. It is maths speakers and practitioners however who must persuade the market and perhaps they will need a little help from market speakers.

Therefore, if Mr Griffith's tale (February 7) is complete and accurate, may I suggest that next time Mr de Havilland tries a different approach. Invite boys and girls, their parents and teachers to his works at a mutually convenient time. Explain what a chuck is and how it is used. Demonstrate his cogwheel model and explain its importance. Then find out which boys or girls have any interest in pursuing an appropriate course of study and developing the skills required: encourage them, their parents and teachers. Develop closer association with his local schools to find out why they do not supply trained apprentices.

Graham S. Dove.
8 Donnington Grove,
Lawn,
Swindon, Wilts.

Loading gauges and the tunnel

From Mr David Layton.

Sir, — I'm really tired of problems of personalities about the railway tunnel. That's not the central issue.

Underlying all the optimism there is a horrible problem. There's no getting round the unavoidable barrier of the different loading gauges in the UK and on the Continent.

This means there can be no free running of continental stock in the UK. There's not going to be free rail movement from all sorts of places in the UK to all sorts of places on the Continent. The only possibilities are shuttle services with UK gauge rolling stock, and this is a terribly unattractive, inflexible sort of operation.

The problems are all on the UK side and there are just not going to be through services of all kinds through this tunnel.

Obviously, there will be a shuttle service from Waterloo to Paris, but does anybody seriously think there are going to be regularly operated services of shuttles to and from anywhere else? Does anybody seriously think they are going to replace the shuttle services to Brussels and Amsterdam or Frankfurt by air?

David Layton,
151 Great Portland Street W1.

Redundancy benefit

From Mr J. E. Bayley

Sir,—Brown and Levin's proposal (February 11) of a new redundancy benefit (NRB) has some initial attraction as a means of keeping pay rises within inflation and of reducing unemployment.

It is, however, an extremely dangerous proposal which if implemented would severely harm the country. The proposal is based on two ill-founded premises:

1—Everyone in a particular employee group should get the same per cent pay rise and this should be less than the retail price index (as an inflation measure).

If this happened it would promote mediocrity. How would you reward merit? How would you reward particular achievement?

2—By keeping pay rises down we minimise unemployment.

Surely the way ahead is to create employment by improving business efficiency and achieving volume growth profitably. All the evidence shows that this happens when you reward excellence, when your motto is "Fewer better paid people." *This approach creates* real jobs.

The Brown and Levin alternative will retain more mediocre low-paid jobs in the short term but such mediocrity cannot and should not be sustained over the longer term.

J. E. Bayley.
7. Cranley Close,
Guildford, Surrey.

Time to end curbs on trade with a friendly China

From the 48 Group of traders with China

Sir, — The reference in your editorial comment (February 11) to the out-manoeuvring of European industry by better-prepared US competitors who moved into the China market is well taken.

Paul Channon in his statement on the Cocom embargo (on strategic exports) of June 1985 referred in several places to the Soviet Union and its allies to whom these restrictions should apply. The Government by some anachronistic perception continues to treat China as falling within this category and therefore subject to Cocom restrictions.

In the view of the 48 Group of British traders with China, this attitude fails to acknowledge the changes in China's foreign policy and her alignment on international issues in recent years.

The Hong Kong accord and the state visit of the Queen surely attest to the fact that today China is a country *friendly to Britain and in logic* and good faith should be so treated in Sino-British trade relations.

Caspar Weinberger, US Defence Secretary, in a lecture given at the National Defence University in China (October 1986) stated: "We believe a secure, modernising and friendly China — with an independent foreign policy and developing economic system — is an essential part of international security. China's ensuing economic growth, enrichment of the lives of the Chinese people, and China's friendship, respect and concern for its neighbours contribute to the peace and strength of the entire region."

Following the Weinberger statement the Americans signed a contract with China for advanced radar and other electronic equipment worth $550m for Chinese-built F-8 jet fighters.

In the view of the 48 Group, representing 100 companies doing business with China, the time has come to stop trying to bend and adjust the Cocom regulations to meet the totally different situation of China and instead to remove China entirely from the list of countries covered by the "security export controls." Instead China should be placed on an equal footing with other countries friendly to Britain.

Roland Berger.
Senior Consultant.
84-86, Rosebery Ave, EC1.

FINANCIAL TIMES

Monday February 16 1987

Roderick Oram on Wall Street

Spotlight on the Fed watchers

FEIGNING INJURY, a senior official of the Federal Reserve limped into a meeting with primary bond dealers. He said he was suffering from a knee-jerk reaction to monetary data, an affliction diagnosed by a dealer's Fed watcher in his widely read weekly commentary on the central bank.

In typically enigmatic style, the official was saying something, but what? Was he ridiculing or confirming the watcher's judgment? Was it just a joke or had his pride been hurt by the suggestion that the Fed had sacrificed its intellectual and political independence by becoming a slave to doctrinaire monetarism?

Such are the challenges facing Fed watchers as they try to interpret for financial markets the central bank's often sphinx-like manipulation of short-term interest rates and other economic controls.

"Anybody trading any security or managing any financial asset has to lock on to Fed policy," says Mr David Jones, chief economist of Aubrey G. Lanston, a leading government bond dealer.

Until last week, the Fed watchers had had a relatively easy 4½ years. The Fed has been pursuing a generously accommodating credit policy since shortly after the barbed knee-jerk joke. Stock and bond markets have boomed as interest rates have fallen.

But when the interest rate on Fed funds – the reserves that banks lend to each other – suddenly rose last week contrary to all expectations, Fed watchers were once again in great demand to explain what was going on. Market players asked anxiously if the Fed was tightening its credit policy to counter the inflationary effect of the dollar's depreciation. Fear mounted when the Fed took no action to stem the rise.

Markets suffered an immediate and costly reaction to the higher interest rates. Bond prices fell, adding to the losses of those bond dealers left with large inventories after the recent Treasury auction. The stock market rally paused.

Essentially, the watchers had to decide whether the higher rates were due to policy, some phenomenon in the financial system or market psychology – or a combination of all three. There was no point in asking the Fed. Although its actions in the markets are fully open, it maintains strict secrecy about why it takes them. Watchers say it believes a sudden and explicit change in policy would cause an over-reaction in the markets. Moreover, a running commentary could lessen the Fed's credibility because markets do not always behave in a way a central bank understands or can control.

Instead, Fed watchers have to turn themselves into mini-Feds, they collect copious financial system data released by the Fed and try to interpret it in the way that the central bankers do. Perhaps 90 per cent of the watchers worked for the Fed before they were hired for their insights by banks, securities dealers, money market consultants and other organisations crucially affected by Fed policy.

A broader sweep of information including general policy goals comes, for example, from heavily edited and delayed minutes of policymaking Fed committee meetings, the Fed chairman's semi-annual testimony to Congress and the Fed governor's speeches and interviews. But this public information adds up to no more than a flight plan. Market players depend on Fed watchers to tell them how the Fed is manipulating the controls on a day by day basis as it tries to "fly" the economy according to the plan, or more crucially, if changing conditions force the Fed to take an unannounced new direction.

Rather than analyse the last move by the Fed, the watchers ideally have to anticipate the next. A small change in interest rates may not be significant to the Fed but it could be costly to investors and traders if they are not prepared.

One of the watchers' hardest tasks is to filter out the signals from the noise. The Fed takes the vast majority of its actions for technical rather than policy reasons.

When the Fed made its weekly release of data last Thursday, the watchers gained a little more fragmentary and inconclusive evidence about the Fed funds rise. Although general opinion backed away from an outright policy change for now, the issue was far from resolved. Analysts were left wondering if the rise was due solely to some temporary quirk in the system or whether the Fed had decided to accept a slightly higher level of interest rates for reasons yet to be revealed.

The flap over Fed funds signalled the end of a relatively easy economic management period for the Fed. The more complex choices it now faces about growth, inflation and the dollar have put Fed watchers back in the limelight.

Soaring prices threaten Brazil's Cruzado plan

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL'S monthly inflation rate rose to 16.82 per cent in January, substantially higher than had been hoped by Government officials, it was reported at the weekend.

The accelerating rise in prices is fuelling speculation that drastic action will be taken to adjust the economy.

The Government of President José Sarney has been attempting for some weeks to win support from the main political party, the Brazilian Democratic Movement (PMDB), for a new economic strategy. This would replace the Cruzado plan which 12 months ago attempted to de-index the economy and freeze prices in the battle against inflation.

The plan has all but disappeared in recent weeks because the Government has been forced to authorise price rises under pressure from industry.

Evidence of rising inflation throughout the economy has increased since January with interest rates in short-term lending nearing an annualised 1,000 per cent at one stage.

Officials had anticipated a January inflation of about 12 per cent. If the current trend continues 1987 year-end inflation would touch 550 per cent.

The deterioration in the economy and a decline in Brazil's balance of trade surpluses has led to a serious reduction in foreign exchange reserves.

By the end of October reserves had fallen about $2bn to slightly more than $5bn in the period from January 1986.

The economic crisis has led to increasing alarm within Brazil and widespread reports that the country may be forced to delay or even temporarily suspend some payments due on its $104bn foreign debt.

Yesterday the Rio de Janeiro newspaper O Globo reported that President Sarney had decided that part of the debt repayments now due would have to be suspended to maintain reserves.

However, a senior Government official connected to the President's executive office described the report as "mere speculation."

The President is increasingly under pressure from the PMDB and more left-wing parties to take the road towards a partial moratorium. Although officials and some ministers are reluctant to follow this route it is clear that such a proposal would increase support for the Government among the electorate.

UK proposal on wages faces challenge from employers body

BY DAVID BRINDLE IN LONDON

THE CONFEDERATION of British Industry – the employers' organisation – is expected to challenge the UK Government's case for the abolition of national pay bargaining.

It is thought to have strong reservations about the direction which the Government is taking and to believe that a national pay bargaining framework is imperative for many of its employer members.

Mr Kenneth Clark, Paymaster General and Employment Minister, last week made an outspoken attack on employers who observed national bargaining, an annual pay round, a going rate, pay comparability and job evaluation.

His remarks were welcomed by the Institute of Directors almost without qualification. Sir John Hoskyns, director general, said Mr Clark's call for pay to be determined at a local level, according to merit and performance, was a "breath of fresh air."

The CBI's response was notably more muted. It has conducted research among its members, to be published soon, which is expected to question seriously the Government's case.

Its reservations are not likely to be made public before the research is complete but there may, in the meantime, be a clash at a meeting on March 4 of the National Economic Development Council, to be chaired by Mrs Margaret Thatcher, the British Prime Minister.

The CBI is due to table at the meeting a separate paper on broader pay questions.

Against a backdrop of growing evidence that the level of pay settlements has stopped falling and may even be rising again, the CBI paper is expected to defend those companies which have awarded wage and salary increases in excess of figures which Ministers think appropriate.

The CBI's research on national bargaining is an update of a survey it carried out in 1979-80. Although the fresh data is still being analysed, it is thought it will show clearly that national bargaining structures offer scope for local variations.

At the root of the Government's case against national bargaining is the contention that national agreements are too rigid to allow employers to pay workers according to local labour market conditions.

The CBI believes most bigger employers do adapt national agreements to suit local conditions. It also feels that smaller companies need national agreements as a reference point in a labour market where pay and conditions would otherwise be haphazardly determined.

US breakthrough for Siemens

BY TERRY DODSWORTH, INDUSTRIAL EDITOR, IN LONDON

SIEMENS, the West German electronics company has overcome opposition from the US telecommunications authorities to win its first order for a large public exchange switch from one of the seven American regional telephone operating companies.

The deal, with Ameritech of Chicago, is believed to be worth about $12m, or the equivalent of a medium-sized exchange using the new generation of digital technology. More important than the size of the contract, however, is the fact that it gives the West German company a strong lead in the struggle by foreign suppliers to win a slice of the $4bn a year American switching market.

At present, the seven regional US telephone companies buy their large central switches either from American Telephone and Telegraph (AT&T), the traditional supplier, or Northern Telecom of Canada, which has won a significant place in the market over the last decade.

Deregulation of the US industry, however, has created opportunities for other foreign manufacturers as well as Northern Telecom. Among Siemens' rivals from overseas are Ericsson of Sweden; NEC, the Japanese electronics group; Alcatel of France; and Plessey from the UK, which has manufacturing facilities in the US through its Stromberg Carlson subsidiary.

Siemens has won the Ameritech contract in the face of threats by the US Government to prevent the company selling to the regional groups. Only a few weeks ago, the Federal Communications Commission (FCC), the regulatory body for the US telephone system, proposed new guidelines which would allow it to block the sales of companies from countries which discriminate against US products.

This move was prompted by a row over apparent restrictions imposed on AT&T in the European market, where Siemens has been bidding against the US company to take over CGCT in France. No decision has yet been made on the FCC's initiative, which has to go through a long discussion procedure. But it is possible that the Siemens order could be affected by the FCC's action because the equipment is only due to be delivered later this year and in 1988.

In the meantime Ameritech fully supports Siemens's efforts in the US. "We would not like to see our ability to pick the suitable vendor for equipment which we need curtailed in any way," the company said.

France and Germany in N-plant deal

BY PAUL BETTS IN PARIS

THE FRENCH and West German nuclear plant manufacturing industries have decided to cooperate for the first time on a contract to design a 600MW nuclear reactor for Indonesia.

The decision by Framatome, the French nuclear plant manufacturer which is 40 per cent owned by the nationalised Compagnie Générale d'Electricité (GGE) group, to co-operate with Kraftwerke Union (KWU), the nuclear power subsidiary of Siemens, reflects the increasingly depressed and difficult environment for nuclear exports which has prompted the two former rivals to join forces on the Indonesian project.

Although the two companies emphasised yesterday that the co-operation betwen Framatome and KWU was limited to the specific Indonesian project, French industry officials did not rule out the possibility that it could lead to further collaboration in the future.

Indonesia took the initiative in asking the French and West German nuclear plant manufacturers to co-operate on a feasibility study for a 600MW nuclear power plant, French officials said yesterday. The Indonesian authorities seem to have felt that they would secure better credit facilities from a joint Franco-German project.

Although Framatome has already made studies for the costruction of smaller 600MW power plants, none have so far been built. The nuclear power industry has long considered that these smaller plants would be more suitable for a number of developing countries or smaller European countries.

One major uncertainty is the cost of designing and constructing these plants and whether they would be competitive with alternative coal-fired power plants.

Nonetheless, the European industry has been looking at new alternatives like these smaller plants to revive export orders. Both KWU and Framatome have seen new orders shrink drastically although the situation has been less alarming for the French group.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	13	55	Dubrovnik	C	13	55	Malta	F	11	52	Rhodes	F	17	63
Algiers	F	17	63	Edinburgh	C	1	34	Manchester	S	4	39	Rio de J'o	C	32	90
Amsterdam	R	2	36	Faro	S	16	61	Manila	F	31	88	Rome	F	13	55
Athens	C	15	59	Florence	R	16	60	Melbourne	C	20	68	Salzburg	R	4	39
Bahrain	S	21	70	Frankfurt	R	3	37	Mexico City	F	23	73	San Francisco	F	12	54
Bangkok	F	31	88	Funchal	C	18	64	Miami	S	16	61	Seoul	S	0	32
Barcelona	F	10	50	Geneva	C	5	41	Milan	R	7	45	Singapore	F	32	90
Beirut	–	—	—	Gibraltar	S	15	59	Montreal	C	-21	-6	Stockholm	C	-5	23
Belfast	S	2	36	Glasgow	S	1	34	Moscow	C	-2	28	Strasbourg	C	4	39
Belgrade	C	9	48	Guernsey	C	4	39	Munich	R	3	37	Sydney	S	23	73
Berlin	Sl	1	34	Helsinki	S	-1	30	Nairobi	–	—	—	Taipei	C	20	68
Biarritz	–	—	—	H. Kong	F	23	73	Naples	C	13	55	Tangier	F	15	59
Bombay	S	27	81	Innsbruck	Sl	2	36	Nassau	F	26	79	Tel Aviv	S	19	66
Bordeaux	F	5	41	Inverness	F	1	34	New Delhi	C	28	82	Tenerife	C	20	68
Brussels	Sl	1	34	Islamabad	C	22	72	New York	C	0	32	Tokyo	C	7	45
Budapest	–	—	—	Istanbul	S	15	59	Nice	–	—	—	Toronto	–	-13	9
B. Aires	F	31	88	Jakarta	R	30	86	Nicosia	C	19	66	Tunis	F	16	61
Cairo	S	22	72	Jersey	C	6	43	Oporto	C	14	57	Valencia	F	17	63
Cape Town	S	21	70	Jo'burg	T	27	81	Oslo	F	-7	19	Venice	C	10	50
Caracas	C	27	81	Lima	–	—	—	Paris	C	3	37	Vienna	C	6	43
Casablanca	F	16	61	Lisbon	F	14	57	Peking	S	1	34	Warsaw	C	2	36
Chicago	C	-6	21	London	F	5	41	Prague	R	1	34	Washington	C	-3	27
Cologne	Sl	2	36	Los Angeles	C	13	55	Reykjavik	S	-3	27	Zurich	C	3	37
Copenhagen	C	2	36	Luxembourg	Sn	1	34								
Corfu	F	14	57	Madrid	F	14	57								
Dallas	S	9	48	Majorca	F	15	59								
Dublin	F	5	41	Malaga	S	17	63								

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Dissident released

Continued from Page 1

reversing the favourable impressions gained by earlier releases of dissidents, including Mr Andrei Sakharov, the Soviet scientist.

Mr Arbatov did not say in his interview on the CBS' Face the Nation programme whether Mr Begun has signed a pledge renouncing dissident activity in future.

However, Mr Arbatov said that Mr Begun's release would have come sooner had it not been for the demonstrations in Moscow. This suggests that the Kremlin – or Mr Gorbachev – was concerned not to appear to be giving in to pressure.

Mr Begun has been sentenced three times during his 16 years of campaigning to emigrate to Israel.

Irish poll poised for close result

By Hugh Carnegy in Dublin

DR GARRET FITZGERALD, the Irish Prime Minister, made his first public attempt to woo the new Progressive Democrats into government partnership with his Fine Gael party at the weekend as opinion polls indicated a close result in tomorrow's general election.

A poll in a Sunday Newspaper showed support for Mr Charles Haughey's Fianna Fail party slipping to 45 per cent, only two points ahead of the combined total of Fine Gael, with 30 per cent, and the Progressive Democrats, with 13 per cent. The outgoing coalition partner, Labour, had 5 per cent.

The poll, raised doubts over Fianna Fail's ability to win the outright parliamentary majority it is seeking. All polls during the campaign have shown a trend of gradually sliding support for Fianna Fail.

Dr FitzGerald said he did not believe Mr Haughey could now win a majority. He called on Fine Gael voters to give their second preference votes under Ireland's proportional representation system to the Progressive Democrats whose cost-cutting economic programme is broadly similar to his own. He described the new party, formed just 14 months ago, as a potential supporter of Fine Gael in government.

Mr Desmond O'Malley, the former Fianna Fail minister who leads the Progressive Democrats, responded coolly. At a rousing, American-style closing election rally, he said the country wanted new leadership.

"There have been no deals or pre-election alliances and there will be none," he said. However, his recommendation that PD voters should give their transfers to candidates with policies closest to their own seemed to point in Fine Gael's direction.

The latest polls, which show that about 15 per cent of the electorate is still undecided, have introduced an air of uncertainty into the election. However, most commentators still expect Mr Haughey to hold off the potential Fine Gael-Progressive Democrat challenge chiefly because so much of the PD's support has come from Fine Gael voters disillusioned by Dr FitzGerald's failures in Government.

Nevertheless, Mr Haughey has been put on the defensive by events of the past few days. Yesterday's poll showed that most voters felt he had lost a television debate with Dr FitzGerald on Thursday night when he was badly wrong-footed on his attitude to the Anglo-Irish agreement.

Fine Gael and Mr O'Malley have attacked Fianna Fail on the agreement in the past week. Although it is unlikely to overtake unemployment and the economic depression as a decisive issue, it is popular in the Republic and Mr Haughey's opponents have said his statements that he wants to change essential elements of it threaten its future.

At his closing press conference, Mr Haughey cut off questioning about the accord saying unemployment was the real issue of concern.

Growing support for new Irish party, Page 2

Japan warns EEC over dumping duties

By Ian Rodger in Tokyo

THE JAPANESE Government is threatening to take action under the General Agreement on Tariffs and Trade (Gatt) if the European Community implements a proposal to impose anti-dumping duties on imported industrial components.

The European Commission has proposed that duties be applied on components, claiming that some Japanese companies are setting up factories to assemble components merely to avoid having to pay dumping duties on finished products.

Officials of Japan's Ministry of International Trade and Industry (Miti) said yesterday that they thought the Commission's plan was contrary to Gatt rules in two respects. First, it would impose duties without an investigation having taken place into whether or not the components were dumped. And second, it would be discriminatory, imposing penalties on imports of components for Japanese owned factories in the EEC, but not on components for factories owned by others.

Miti officials emphasised, however, that it was difficult for them to take any action at the moment, because the Commission's final draft proposals had not yet been published. Also, the proposals would have to be approved by the Council of Ministers, probably at a meeting next month. Miti officials were looking forward to expressing their views to Mr Heinrich von Moltke, the EEC industrial policy director, who will visit Tokyo next week.

THE LEX COLUMN

Cutting out the middle man

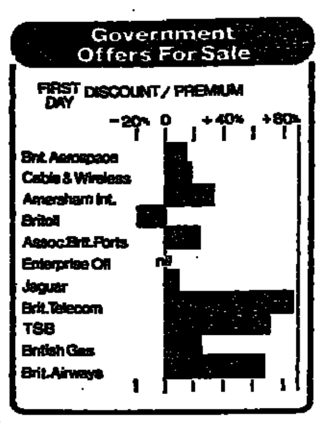
When history repeats itself, said Karl Marx, it is farce. What word he would have applied to an event which recurs several times is not known. A chronicler of British capitalism in a later century might well need such a word to describe the tireless struggle of the Government and its advisers to find a way of selling companies to the private sector without embarrassment. When the offer of shares in Amersham International encountered massive oversubscription, and the shares opened at a premium of over 30 per cent it could have been put down to inexperience at the start of the process. But it is little short of bizarre that almost five years to the day later exactly the same thing should happen in the offer for sale of British Airways.

If the present Government is re-elected there will be a second wave of privatisations. These are most likely to include part or all of the electricity supply industry, which is the proud maintainer of assets with a replacement value of £37bn – about twice the value of British Gas's collection of pipes and drums. With such assets being prepared for sale, the Government should now review the mechanics of selling shares.

There may well be votes to be gained in selling cut-price shares to the electorate, but there are also votes to be lost in being seen to hand the City of London a large slice of such bargains profits at the expense of "the people" – on whose behalf the shares have been sold in the first place.

Divergence

This dilemma is the political consequence of the apparently divergent main aims of the Government in its offers for sale. These are to maximise the proceeds for the public purse while at the same time encouraging the widest possible share ownership. Although this appears to be a hopelessly conflicting set of objectives, there is a sense in which the Government's drive for popular ownership arose precisely as the means to ensure that proceeds were maximised. It was only during the British Telecom campaign that the theme of mass share ownership emerged. Until then privatisation was advocated in terms of the primary objective; to subject badly run businesses to the disciplines of private capital. But with British Telecom the financial institutions were



being asked to put more money into one issue than their normal net annual purchases of all equities. So the public was – and still is – needed to create an illusion of scarcity in the fund-managers' mind.

Potential

But the most effective way to increase the market for such shares, and thus to swing the balance of supply and demand more in the vendor's favour, is to tap the larger overseas markets. It is not necessary to see the valuation of 200 times earnings put by the Japanese market on the new shares in NTT to realise the potential. Yet in all the Thatcher Government's offers for sale, it has never made available more than 20 per cent of an issue to overseas investors.

The result, in the case of British Gas, was that the UK institutions made a quick turn in selling on high yielding shares to US investors who value gas utilities more highly. The arbitrary 20 per cent figure stems from the 1977 sale of BP shares by the last Labour Government, which placed a fifth of that offering in the US. It is at least odd that the present Government feels unable to step one inch over the threshold established by Mr Denis Healey.

There is another less politically exposed way in which the Government can better establish a proper market price for its shares. That is to attempt the kind of red herring method used in the US for offers for sale, in which syndicates are required to make firm bids of volumes and price, and honour those commitments in the offer proper. The method as practised in the UK involves selected institutions being asked what they think the shares might be worth. Naturally the funds name the lowest sum that does not beggar belief, and frequently they get away with it. Of course the Government is not the only vendor to have fallen victim to this informal cartel.

If is is decided that it would offend too many vested interests to break apart the ancient British art of share offerings – fixed-rate sub-underwriting and all – and that tender offers are too complicated for the public to understand, there are still simple ways to minimise the cash left on the table.

Efficiency

The most efficient of the Government disposals have been the secondary offerings, in which the stock has been sold at a small discount to an established market price. British Telecom may have been badly underpriced, but at least the Government can skim the pool if it is around to sell the remaining 49 per cent. No such luck with British Airways.

There is a strong case for doing as the Japanese Government has done with NTT, and sell only 10 per cent in the first instance, to minimise the losses involved in misjudging the market. The objection that this would not permit the sale of the assets immediately to be offset against the PSBR is in a way no more than a question of semantics. A sale of British Leyland is apparently not offsettable against the PSBR, even though less than 1 per cent of its equity is held in private hands.

State corporations are not owned by the Government of the day. It merely exercises a degree of control on behalf of the true beneficial owners – the people. That is why there is a particular obligation to maximise proceeds. This onus can probably best be combined with the widest possible share ownership by giving the assets to the people, direct. In the case of the Electricity industry there is virtually an identity between the customer – who has funded the business – and the householder. So such a method of distribution would be particularly apposite. And the sheer size of the business for once means that the individual allocations would not be derisory – something of the order of £500 per household, by the time all the equity was transferred. The public could of course sell their shares whenever they wanted. As for the price, what are market-makers for?

FINANCIAL TIMES

Monday February 16 1987

INTERNATIONAL BONDS

Strong demand for convertible Eurosterling deals

THE EUROSTERLING market breeds on excess, one new issue manager said wearily on Friday. Certainly, last week's volume, eight deals totalling £555m, looked a bit high for a fragile market, writes **Clare Pearson in London.**

Luckily for the co-managers, £315m worth of the deals comprised equity-linked issues and the gains on these could at least partially make up for the sorry trading performance of most of the fixed-rate bonds.

Equity-linked bonds for UK companies are highly sought at the moment, underpinned by strong demand from Continental investors who do not seem to differentiate strongly between individual borrowers.

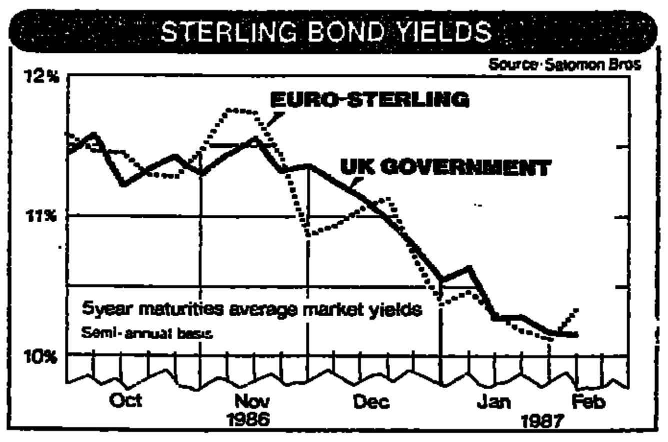
True, glamorous names such as Next, which came to the market last autumn, meet the most enthusiastic reception, but last week's issues for less well-known companies like Asda-MFI and W. H. Smith were trading comfortably at prices just above par.

Although there was little to choose between the trading performance of the convertibles that were launched last week, dealers said investors were generally more in favour of the issue that included a put option – that for Asda-MFI – than of those that did not.

The inclusion of the put option transforms the nature of the convertible from virtual deferred equity into a fixed rate bond with an equity play, which means that the investor can hardly lose.

For in the worst case, if the shares do not perform, he has purchased a shorter-dated bond (most put options come into operation after five years) with a yield comparable to that of a gilt.

The attractions of the feature have been underlined by the trading performance of a recent convertible for Burton. Dealers said last week that this lost only about ¼ to ½ a percentage point in price, even though the underlying shares fell sharply.



The put option does have a drawback from the issuers' point of view, however, if the company is seeking long-term funds, since operation of the put will mean that it has only succeeded in obtaining shorter-term debt.

In sharp contrast to the buoyant state of the convertible sector, the fixed rate Eurosterling primary market was looking shell-shocked from the weight of new paper last week, and the overhang was beginning to put the secondary market in a defensive mood as well.

The problem was that most of the deals were ambitiously priced, while the gilt market, after being very strong at the start of the week, failed to provide the necessary support as it progressed.

The issue that fared worst seemed to be a £40m five-year issue for the Alliance & Leicester building society. But all were quoted at levels well outside their fees on Friday, with the exception of the issue for McDonalds, which was held above water by virtue of its popularity with European investors.

The Eurodollar market traded nervously all week, although it recovered slightly on Friday after the US Treasury bond market staged a late rally.

Longer-dated issues were meeting virtually no demand last week, with the exception of the $100m 10-year issue for Norges Kommunalbank launched on Friday. The main casualties seemed to be a $100m 10-year issue for Eurofima and a $150m 10-year bond for Cargill.

In the D-Mark market, which became heavily overloaded with paper last week, longer-dated bonds were out of favour as well. Of the three trenches of a DM 700m deal for Austria, for instance, the six-year piece was quoted at a discount of 1⅛ points to issue price on Friday, the 10-year tranche at a discount of 2¾ points, and the 15-year tranche at a discount of 3½ points.

Nevertheless, dealers said the market was still in fundamentally good shape, sustained by domestic investors reluctant to take profits while the currency environment was still so uncertain and by speculative foreign interest.

Ciba-Geigy protests over US bond issue

CIBA-GEIGY, the Swiss pharmaceutical group, protested strongly over the weekend against the use of its shares in a covered warrant bond, new in the Swiss securities market, launched by ICN Pharmaceuticals of California, **Reuter reports from Basle.**

The Swiss company said that the ICN bonds, which holders can convert into Ciba-Geigy bearer shares, were against its own and its shareholders' interests. It said it had not been consulted over the bond either by ICN or by the bond's two lead managers, Fintrelex and E. Gutzwiller.

The two lead managers announced on Friday that they were launching a SFr 6m ($3.9m) 10-year "double convertible" bond. Holders can choose to convert it into shares of ICN Pharmaceuticals or into bearer shares of Ciba-Geigy.

Ciba-Geigy said it had found out about the deal from the press and had demanded an explanation from Gutzwiller.

A Gutzwiller executive said: "I am not particularly surprised by the Ciba-Geigy statement. The hostile reaction was to be expected." He said the success of the issue would not be hurt by Ciba-Geigy's hostility.

Many Swiss companies are permitted to refuse voting rights to shareholders who buy registered shares, whether directly or through the exercise of options, but no such restrictions apply to bearer shares.

Ciba-Geigy said it had been told by Gutzwiller that it would have around 15,000 Ciba-Geigy bearer shares with a current value of SFr 47m on deposit with it by the end of March to cover the conversion of the bond. Gutzwiller would not say where it was obtaining the shares.

ICN, which has attracted attention recently after reporting promising developments in the treatment of acquired immune deficiency syndrome (Aids), has issued several Swiss franc bonds in recent years through Banque Gutzwiller, Kurz, Bungener of Geneva.

Executives there deny any legal links between the bank and the two lead-managers, although Mr Jean-François Kurz, part-owner of the bank, is chairman of Fintrelex, the finance company recently set up with an address in Trelex in the canton of Geneva.

Members of both the Gutzwiller and Bungener families are listed among owners of E. Gutzwiller.

Banque Gutzwiller, Kurz, Bungener is itself 95 per cent owned by Bank Leu of Zurich.

EUROCREDITS

British building societies rush to borrow foreign currencies

BRITISH building societies are moving swiftly to take advantage of recent liberalisation allowing them to borrow in foreign currencies, writes **Alexander Nicoll in London.** Three have issued dollar-denominated Eurobonds – the Halifax, Abbey National and Woolwich – and on Friday the Halifax announced a £300m facility allowing it to issue certificates of deposit and receive advances in a range of currencies.

Chemical Bank International and Butler Securities have been awarded the mandate for the deal, in which they are providing a package including the related currency swaps. Societies borrowing in foreign currencies are required immediately to hedge the currency exposure fully.

The Chemical/Butler structure has been approved by the UK Building Societies Commission.

It is an uncommitted facility in which the borrower will seek bids through a tender panel. The Halifax may raise money in dollars, D-Marks, Swiss francs, European currency units or yen.

The Cheltenham & Gloucester also has an option to issue dollar CDs under a sterling CD programme signed last year, but has yet to take advantage of it.

The Bulgarian Foreign Trade Bank is tapping the markets for its first syndicated loan since 1985. The new loan is sizeable at Y40bn and looks almost certain to be spread entirely among Japanese banks. Bank of Tokyo International and Dai-Ichi Kangyo Bank are the lead managers.

Although it is one of the largest Euroyen loans ever arranged, it may be drawn in other currencies. The terms could not be officially confirmed, but are understood to represent a substantial improvement for the borrower by comparison with 1985. The maturity is seven years including six years' grace, and the margin over Libor is 12.5 basis points for the first two years and 25 basis points thereafter. The final loan of 1985 began at 25 basis points and went to 37.5 after four years.

The deal was believed to be meeting an enthusiastic response

GM Hughes Electronics Corporation, a wholly-owned subsidiary of General Motors, is making its first venture into the Euromarkets with a $250m standby revolving credit mandated to Bank of America International.

The five-year credit, which includes a swingline option, carries a facility fee of 5 basis points for the first three years and 6.25 basis points, with a utilisation fee of 5 basis points if more than a third of the total is drawn and of 10 basis points above two-thirds. Front-end fees range up to 5 basis points for commitments of $20m.

The appetite for corporate deals in what has been a very quiet Eurocredit market since the beginning of the year has been demonstrated by the response to a $30m loan for Finland's Amer Group, which has been more than three times subscribed and is likely to be increased to $50m.

Another deal being handled by Citicorp, however, remains uncompleted: the $1bn credit for Electicité de France on renegotiated finer terms. Many banks have still to respond to invitations to replace those which have dropped out and the crunch will come at Friday's deadline.

Among paper programmes, FAI Insurances, the Australian company which has taken a stake in UK merchant bank Hill Samuel, is increasing its sterling commercial paper programme, on which Samuel Montagu is dealer, from £50m to £75m.

Rabobank Nederland appointed Morgan Grenfell as dealer on a £150m sterlingg CD programme.

Petroleum Corporation of New Zealand, the state oil concern, is arranging a $150m committed multi-option facility led by S.G. Warburg and Bank of New Zealand and will also have a $200m Eurocommercial paper programme.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,343.5	545.7	86.0	3,543.5
Prev	1,961.4	–	318.0	3,711.5
Other	2,134.4	446.5	–	202.7
Prev	744.0	5.8	–	247.8
Secondary Market				
US$	21,537.8	1,941.2	15,649.5	5,419.6
Prev	24,127.2	2,202.1	20,247.8	5,918.4
Other	19,180.7	567.9	3,649.5	10,677.6
Prev	18,669.5	304.1	3,492.3	9,119.6

	Cedel	Euroclear	Total
US$	14,796.4	36,270.4	51,066.8
Prev	14,854.8	43,631.6	58,486.4
Other	15,915.1	21,144.2	37,059.3
Prev	13,546.5	18,036.6	31,583.1

Week to Feb. 12, 1987 — Source: AIBD

SKF, the Swedish ball bearing group, has mandated Warburg for a £75m uncommitted acceptance facility.

Schlumberger plunges into deficit of $2bn

SCHLUMBERGER, the large US oilfield services and electronics company, lost $2.02bn or $7.02 a share after tax last year, following a profit of $351m or $1.17 in 1985, **Our New York staff write.**

Last year's losses had been foreshadowed by the announcement of heavy one-time write-offs in Schlumberger's core oilfield and warnings about continuing large losses at Fairchild Semiconductor – a business which is being sold to Fujitsu of Japan.

In total, the non-recurring charges against 1986 net income amounted to $1.74bn. This included $1.46bn in the oilfield services operations, $130m relating to measurement and control businesses, and a $150m allowance for potential interest payments relating to pending litigation between the company and the Internal Revenue Service.

Schlumberger lost a total of $363m on Fairchild Semiconductor in 1986. This included a $146m operating loss, a $200m write-down resulting from the pending sale to Fujitsu and a $70m provisioin for estimated further losses between January 1, 1987 and the projected closing date of the sale.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Index-linked sector grabs the limelight

THE INDEX-LINKED sector of the UK Government bond market grabbed the limelight last week, partly in response to a series of UK economic figures which seemed to sound an early warning signal about inflationary pressures in the economy.

Over the course of the week, which saw the release of the latest data for producer and retail prices and average earnings, long-dated index-linked gilts rallied by more than 3 points.

So strong was sentiment that the Bank of England's announcement on Friday of a tender of £400m of index-linked 2 per cent 1992 did little to dent price gains.

Even excluding demand for index-linked gilts on the strength of worsening inflation expectations and the cheapness of the sector in comparison to equities, there should be some ready-made demand for this issue because of the redemption on February 24 of the 2½ per cent Exchequer 1987 stock.

There has already been a lot of activity in the short, low-coupon area revolving around this redemption as investors rolled over their holdings into comparable stocks and this must form part of the Bank of England's thinking.

Although there were some reservations about how bad the figures really were, index-linked gilts first gained support from Monday's data showing sizeable increases in manufacturing industries' costs and prices last month.

This was followed by Thursday's surprising news that the underlying pace of average earnings growth had edged up to 7¾ per cent. Not only that, but November's figure was revised up as well, making it more difficult to argue that the latest figures just represent an upward blip.

The gilt market found this one particularly depressing after the rally at the tail-end of last year partly on the strength of the Confederation of British Industry's sanguine report on wage settlements.

Friday's news of a rise in the annual rate of retail price inflation to 3.9 per cent in January came as no surprise in itself but still nicely rounded off a week of poor news for the Government on inflation.

A consensus view is now emerging which seriously questions the Chancellor's view that inflation will average 3¾ per cent in the final quarter of this year. Most forecasters are expecting inflation to rise to perhaps a peak of 6 per cent in the summer, falling back to perhaps just under 5 per cent by the fourth quarter.

And this view is not based on the usual pessimism within the community of economists about life under a Labour Government. It assumes a Conservative victory in the election.

Index-linked stocks may also be benefiting from the impasse which seems to have been reached in the conventional sector.

Shorts have had a good run, partly on the back of recent speculation of a base lending rate cut around Budget time. This sector now looks constrained, particularly in view of last week's data which strongly reinforces a very cautious approach on lowering interest rates.

As for long-dated issues, they probably already take into account most of the good news likely to come out of the Budget and have still not managed to break the 10 per cent yield level decisively.

Given the relative proximity of the Budget, it seems unlikely that anybody will stick their necks out much further at this stage and gilt market traders are expecting a rather boring period of narrow range trading—unless of course the Group of Five actually does come up with an agreement on currencies and the foreign exchange market produces some fireworks.

As for events nearer home, this week is dominated by the release of UK economic data. Particularly watched are likely to be tomorrow's January Public Sector Borrowing Requirement and Thursday's January money supply figures. The market has to some extent discounted good figures in both cases.

Everyone now seems agreed that the PSBR will undershoot and January's figures should confirm that view with a substantial net repayment of perhaps £2.5bn to £3.5bn.

Narrow money MO is expected to have fallen back substantially, giving an annual growth rate of somewhere under 4 per cent. Will that be enough to start talk off again of a base rate cut so soon after those inflation figures?

Janet Bush

US MONEY AND CREDIT

Hopes fade of lower interest rates

HOPES of an early cut in interest rates have evaporated in recent weeks and been replaced by fears that the Federal Reserve may have been quietly tightening monetary policy in a bid to stem the slide in the value of the dollar and cool the rapid expansion of the money supply.

The prices of long-term government bonds fell by close to two points early last week following upward pressure on the Fed funds rate and, although bond prices recovered towards the end of the week, the yield on the government's closely watched long bond is now standing around 7.6 per cent — its highest level in over three months.

The yield on six-month Treasury bills has risen by over 30 basis points over the last month and at 5.67 per cent is some 60 basis points above last year's low point.

Salomon Brothers notes in its latest "Comments on Credit" that the Fed's failure to add reserves last week when the Fed funds rate pushed above 6¼ per cent prompted a sharp rise in short-term rates. Much of that was given back, when reserve data revealed extraordinarily large excess reserves and a surprisingly low level of discount window borrowing in the latest period.

"Market uncertainty now centres on which provides a more accurate reading of the Fed's stance—the high funds rate or the generous reserve conditions," says Salomon which believes that the Fed's passive acceptance of a higher funds rate since November turned to "more active support" in recent weeks suggesting that the prevailing funds rate will remain near 6¼ per cent.

The confusion about monetary policy may be cleared later this week after Mr Volcker, the chairman of the Federal Reserve, gives his semi-annual "Humphrey-Hawkins" testimony. Mr Volcker will be testifying to Congress a week after the Federal Open Market Committee met to discuss short-term monetary policy. The minutes of the mid-December meeting show that policy was left unchanged but analysts are uncertain whether a similar policy directive emerged from last week's meeting.

The uncertainty about interest rates led to a fall of more than a point in some corporate bond prices. New issue activity was said to be light and one of the biggest offerings, a three-year issue of Texaco Capital Corporation notes, had to be postponed after news of another setback in Texaco's long-running legal battle to avoid a multibillion dollar judgement relating to the takeover battle for Getty Oil.

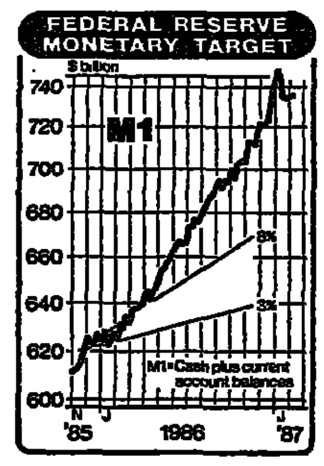
Smith Barney says that, with the exception of an aggressively priced five-year note issue for CIT Corporation, which yielded 51 basis points over comparable Treasury issues, most new corporate issues were placed without great difficulty last week. Some of the more "significant successes" included a 30-year $120m debenture for Southwest Gas, rated triple B by S&P and carrying a 9¾ per cent coupon, and a $100m 10-year note issue for Transamerica Financial, which was rated A1 by Moody's and yielded 71 basis points above comparable Treasuries.

Exchanges, banks and government offices in the US are closed today for President's Day, a federal holiday. The following economic and financial data is due for release this week, along with the median market expectations, as surveyed on Friday by Money Market Services of Redwood City, California:

- January housing starts due Wednesday are estimated to have slipped back from December's strong 1.8m units per annum to 1.7m. Construction on the East Coast has been slowed by harsh winter conditions but the housing sector will have been helped by a relatively mild winter in the Mid-West and Great Lakes states. Estimates range from an annualised rate of 1.6m units to 2m units.
- The revised figures for real gross national product which are due on Thursday, are estimated to show an unchanged fourth-quarter 1986 growth rate of 1.7 per cent. Current estimates for the growth in 1987 GNP range from 1 per cent to 3½ per cent with a median estimate of 2½ per cent and a GNP deflator of 3½ per cent.
- The weekly money supply figures on Thursday are expected to show a $1bn drop, with forecasts ranging from a rise of $3bn to a drop of $4bn. The previous week's $5.3bn rise left M1 $10.1bn above the upper end of the Fed's target range of 3 per cent to 8 per cent growth for the current year.
- January personal income data on Friday is expected to have risen by 0.4 per cent, compared with a 0.8 per cent rise in December with the slower pace attributed to lower farm subsidy payments, says Smith Barney. Forecasts range from a 0.2 per cent drop to a 0.7 per cent rise. Following last week's steep fall in January retail sales, personal consumption is forecast to have dropped by 1.8 per cent in January with estimates ranging from a decline of 3.5 per cent to an increase of 0.5 per cent. Kleinwort Benson Government Securities says that consumers have been pulling to the sidelines following the great rush to purchase "big-ticket" durables in advance of the new 1987 tax law.
- Mr Paul Volcker, chairman of the Federal Reserve, will deliver his "Humphrey-Hawkins" testimony to the Senate Banking Committee on Thursday. It will reveal the central bank's long-term monetary targets and its overall assessment of the economy's performance. Elsewhere on Capitol Hill on Thursday, Mr James Baker, the Treasury Secretary, and Mr Clayton Yeutter, the Trade Representative, will testify before the Senate Finance Committee's hearings on the world economy and related trade issues.

William Hall

FEDERAL RESERVE MONETARY TARGET



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.21	6.10	6.06	11.34	5.71
Three-month Treasury bills	5.65	5.66	5.34	7.10	5.01
Six-month Treasury bills	5.67	5.56	5.37	7.16	5.06
Three-month prime CDs	6.20	6.03	5.89	7.80	5.48
30-day Commercial Paper	6.15	5.98	5.85	7.70	5.55
90-day Commercial Paper	6.10	5.95	5.75	7.65	5.48

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99½	− ⅛	7.10	6.92	6.86
20-year Treasury	115⅞	− 1⅛	7.77	7.65	7.55
30-year Treasury	89	− 1½	7.58	7.46	7.33
New 10-year "A" Financial	N/A	− 1	8.15	8.00	8.00
New "AA" Long utility	N/A	− 1⅛	8.75	8.63	8.63
New "AA" Long Industrial	N/A	− 1⅛	8.63	8.50	8.50

Money Supply: In the week ended February 2 M1 rose by $5.3bn to $736.9bn.

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1983 = 100	12/2/87	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	134.96	4.60	134.73	130.38	127.93
Government Bonds	135.87	4.16	135.48	131.19	129.03
Municipal Bonds	135.16	5.03	135.10	130.68	127.72
Government-guaranteed Bonds	136.08	5.08	135.84	131.30	128.31
Bank Debentures	131.12	4.10	130.90	126.88	124.70
Corporate Bonds	134.10	5.35	139.95	129.23	126.24
Yen-denominated Foreign Bonds	135.28	6.31	135.11	131.27	128.51
Government 10-year†	—	5.22	5.18	5.53	5.38

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN Bank 8½ 91	150	103¼	−0¼	7.54
AHFC O/S Fin 11¼ 94	100	103	−0½	11.11
AIDC 11 89	75	106⅛	−0¼	7.48
Alcan Australia 8½ 89	25	100	0	8.47
Alcoa Australia 11 92	80	106⅝	−0½	9.45
American Expa 12⅞ 88	150	108⅛	−0⅛	6.85
Asian Dev Bk 11⅜ 93	100	115½	−0⅜	8.60
Australia 11¼ 90	100	111	−0⅛	7.88
Australia 11¼ 00	100	116⅝	−1⅞	9.02
Austria Zero 95	100	50⅝	−0⅞	8.42
Bk Nova Scotia 13⅜ 87	100	102⅛	−0½	7.61
Bank of Montrl 14½ 87	100	101⅞	−0⅛	7.74
Bank of Tokyo 11⅞ 90	100	114⅝	−0½	7.42
Bank of Tokyo 8⅜ 96	100	101⅜	−1⅛	8.09
Bank of Tokyo 11 90	125	110	−0⅛	7.30
Bank of Tokyo 13⅞ 89	100	115½	−0⅛	7.11
Barclays Jersey 10⅝ 90	250	108⅛	−0⅛	7.35
Barclays Jersey 10⅝ 95	250	114⅞	+0⅛	8.19
Belgium 7½ 91	250	100	−0¼	7.49
Belgium 7¾ 91	300	100¼	−0½	7.52
Batawest Prop 7⅞ 93	150	99⅛	−0⅜	7.92
BFCE 7¼ 93	100	97½	−0½	7.76
BNP 8¾ 93	125	103	−0⅛	8.10
BNP 13½ 89	150	114⅝	−0⅛	7.19
BP Capital 11¼ 92	150	111⅛	+0⅛	8.24
BP Capital 9⅝ 93	150	107⅞	−0⅛	7.90
Br Col Hydro 10⅜ 88	200	103⅛	−0⅛	6.69
Br Col Hydro 11⅜ 93	200	119⅜	−1	7.91
Br Col Hydro 13⅜ 88	150	0		
Canada 10 95	500	0		
Canada 14½ 87	750	0		
Canadn Imp Bk 16 ¼91	100	115⅝	−0½	12.12
Can Natnl Rail 14⅜ 91	100	113½	−0½	10.84
Canadian Pacific 7½ 96	100	95¼	−0⅛	8.24
Canadian Pacific 10¼ 93	100	109⅛	−0⅛	8.79
Canadian Pacific 14⅜ 92	75	0		
Caterpillar Fin 0 92	300	0		
CCCE 7⅞ 91	113	99⅛	−0⅛	7.34
Centrust S&L 0 10	1.2bn	12	−0⅛	9.65
Chevron Corp 8¾ 96	300	0		
Citicorp 11⅜ 92	100	107⅞	−0⅛	9.67
Colgate-Palmolive 9⅝ 98	100	107½	−0⅛	8.29
Com Bk Australia 10 93	100	110⅛	−0⅛	7.94
Com Bk Austria 12⅜ 89	100	112⅛	−0⅜	7.21
Continental Grp 11½ 93	75	102⅞	−0⅛	10.83
Credit Foncier 12½ 92	192	0		
Denmark 0 98	250	37⅞	−0⅛	8.89
Denmark 7 88	1.0bn	100¼	−0⅛	6.86
Denmark 10⅞ 90	100	103⅜	−0⅛	9.48
Denmark 11½ 92	100	116⅞	−0⅛	7.68
Denmark 13 91	100	0		
Denmark 13 92	100	101	−0⅛	12.70
Denmark 13¾ 91	100	121⅞	−0⅛	7.45
Deutsche Bk Fin 13½ 89	200	114⅛	−0⅛	7.20
DKB Asia 9⅞ 91	100	102⅛	−0⅛	7.53
Dutch St Mines 11⅜ 91	150	106	−0¼	9.62
ECSC 9 93	25	0		
ECSC 7 89	75	100⅛	−0½	6.87
EDF 10⅜ 95 A	100	108⅞	−0⅛	8.83
EEC 9⅞ 90	350	105½	−0⅛	7.72
EIB 7⅜ 93	150	100	−0⅛	7.74
EIB 10⅜ 92	150	0		
EIB 10⅜ 94	200	112½	−0⅛	8.48
EIB 10⅜ 93	200	0		
EIB 11 91	125	113⅞	−0⅛	7.10
EIB 11½ 90	200	0		
EIB 11⅝ 91	73	111½	−0⅛	8.11
EIB 12 95	200	0		
Eksportfinans 0 94	360	54⅞	−0⅞	8.24
Elec de France 11½ 93	100	0		
Emerson Elec 9⅝ 95 SW	100	107⅞	−0⅛	8.40
ENEL 10 95	400	105	−0⅛	9.32
Equitable Life 10⅜ 92	100	0		
Eurofima 9⅜ 98	100	107⅞	−0½	7.99
Eurofima 12½ 91	100	0		
Export Devel 9⅞ 88	200	103	−0½	7.45
Export Devel 10 88	125	0		
Export Devel 10⅜ 88	100	103½	−0⅛	6.68
Export Devel 11⅜ 89	150	107½	−0⅛	6.99
Export Devel 12 89	100	111⅜	−0⅜	7.06
Farm Credit Corp 7½ 93	100	98⅛	−0⅞	7.73
Finland 12⅜ 94	75	125⅛	−0½	7.76
Ford Motor 10½ 93	150	109⅛	−0⅜	8.46
Forsmarks 8⅜ 91	100	104⅛	−0½	7.52
Fuji Bk & Tst 7⅜ 91	100	100⅛	−0⅛	7.51
Fuji Intl 10⅞ 90	100	109⅜	−0½	7.42
Gaz de France 12⅜ 93	175	118⅜	−0⅛	8.33
Gen Elec Cred 0 96	600	0		
Gen Elec Cred 9⅜ 91	100	104½	−0⅛	8.47
Gen Elec Cred 10⅜ 90	200	106	−0⅛	9.55
Gen Elec Cred 12 94	200	115½	−0½	9.11
Getty Oil 14 89	125	101	−0½	13.34
GMAC 10 92	250	107⅛	−0⅛	8.28
GMAC 10 88	200	103	−0⅛	6.82
GMAC O/S Fin 15⅜ 97	100	104½	−0⅛	7.30
Gram Finance 13⅜ 89	100	107⅞	−0⅛	9.64
GTE Finance 12 98	75	0		
GZB 14 91	100	120⅛	−0⅛	8.30
Holl Air Fin 12⅜ 91	100	105⅜	−0⅛	10.47
IBM 9⅜ 89	200	102⅞	−0⅛	6.93
IBM Credit 10⅜ 89	300	103⅜	−0⅛	8.23
IBM World Trade 7⅜ 93	150	0		
IC Industries 12 90	75	109½	−0¼	8.82
Inco 9 92	100	98⅜	−0⅛	9.27
Ind Bk Japan 10⅜ 92	100	109⅛	−1	8.32
Ind Bk Japan Fin 8 93	150	101	−0⅛	7.78
Int-Amer Dev 12⅜ 91	150	120⅛	−0⅞	7.52
Int Paper 12 91	75	105⅛	−0⅛	10.35
Italy 7 91	100	0		
Italy 8⅜ 91	200	104½	−0⅛	7.42
Italy 9⅜ 96	150	107⅛	−0⅛	7.99
ITT Credit Corp 10½ 90	75	106½	−0½	8.18
Kellogg Co 10⅞ 90	100	106⅝	−0⅛	8.18
Kellogg Co 11⅜ 92	100	0		
Kimberly-Clark 12 94	100	0		
Liberty Mtuel 8½ 96	150	102⅞	−0⅛	8.03
Lockheed Corpn 7⅜ 89	150	100	−0⅛	7.20
Long Term Cred 10⅜ 90	100	108⅛	−0⅛	7.33
Long Term Cred 11 90	100	109⅛	−0½	7.33
Long Term Cred 11⅞ 89	100	109⅛	−0⅛	6.98
Manitoba 7⅜ 96	150	95⅞	−0½	8.14
Manitoba 8⅜ 91	125	104⅛	−0⅛	7.33
Manitoba 13⅜ 89	100	114⅞	−0½	7.28
Marks & Spencer 8½ 96	150	102	−0⅛	7.93
Marubeni 11⅜ 91	100	112⅝	−0⅛	8.13
Mercedes Credit 7⅜ 93	100	97⅞	−0⅛	7.65
Mercedes Credit 7½ 93	100	101	−0⅛	7.29
Merrill Lynch 8 93	200	100⅛	−0½	7.91
Merrill Lynch 9 89	200	103½	−0½	7.02
Mer Lynch O/S 10⅜ 90	200	108⅜	−0⅛	7.44
Mitsubishi Co 10½ 92	100	106	−1½	8.47
Mitsubishi Est 10⅜ 92	50	107½	−2	8.62
Mitsbshi Fin HK 11⅜ 90	100	111½	−0⅛	7.37
Mitsbshi Fin HK 12⅜ 89	100	0		
Mitsui Tst Fin 12 91	100	113	−0½	8.08
Morgan Gty Tst 7⅜ 91	100	0		
Morgan Gty Tst 12⅜ 89	150	112½	−0⅛	7.16
Morgan J P 11¼ 92	100	108⅜	−0½	9.02
Morgan J P 10⅜ 92	100	0		
Mount Isa Fin 13⅜ 87	100	102⅛	−0⅛	7.81
Nat West Fin 11⅜ 92	150	117⅞	−0⅛	7.84
Ned Gasunie 11⅜ 90	75	111⅛	0	7.61
New Zealand 7⅜ 88	300	100	−0½	7.27
New Zealand 7½ 91	200	97⅞	−0½	7.65
New Zealand 7⅞ 97	250	100	−0⅛	7.81
New Zealand 8 93	100	100⅜	0	7.88
New Zealand 8⅜ 93	150	101⅜	−0⅛	7.27
New Zealand 10⅜ 95	200	110⅜	−0⅛	8.40
Nippon Cred Bk 9⅜ 93	50	0		
Nissho Iwai 10⅜ 92	100	110⅛	−0⅛	8.19
Nova Scotia 11⅜ 91	100	104½	−0½	10.23
NSW Treasury 11⅜ 90	150	111⅞	−0⅜	7.44
Olympia & York 8⅜ 96	435	98⅞	−0½	8.50
Ontario Hydro 10¼ 90	250	108⅛	−0½	7.12
Ontario Hydro 11¼ 93	200	110⅜	−0⅛	7.03
Ontario Hydro 11⅜ 94	200	119⅞	−0⅞	7.87
Ontario Hydro 11⅜ 90	200	113⅜	−0⅛	7.27
Ontario Hydro 13½ 91	100	120⅞	−0⅛	7.33
Ontario Hydro 14⅜ 93	150	115⅛	−0½	7.06
Ontario Hydro 15 92	150	131⅛	−0⅛	7.73
Pacific Gas & El 15½ 83	45	101⅛	−0½	14.70
Pacific Gas & El 12 00	75	116	−2	9.78
Penney J C 11⅞ 90	100	103⅜	−0½	10.55
Penney J C 12⅜ 91	100	111⅛	−0⅛	9.46
Pepsico Capital 8⅞ 91	100	103⅞	−12	7.42
Petro-Canada 7⅛ 96	200	95	−0⅜	8.03
Philip Morris 9⅞ 98	200	110	−0½	8.44
Post Och Kred 13½ 87	50	102⅞	−0⅛	7.75
Postpankki 11½ 90	75	109	−0⅛	7.73
Proctor & Gam 10 95	150	110⅛	−0⅛	8.17
Pru Rlty Secs 0 99	365	36⅜	−0⅛	8.79
Pru Rlty Secs 12¼ 95	545	0		
Qantas Airways 8⅞ 96	97	102⅞	−0⅛	8.16
Qantas Airwys 10⅜ 85	140	0		
Quebec Hydro 10 99	75	102⅜	0	9.60
Queensld Gvt 11⅜ 89	100	110⅛	−0⅛	7.20
Reynolds R. J. 10⅜ 93	100	111⅜	−0⅛	7.93
Rockwell Int 9⅞ 90	200	107⅞	−0⅛	7.28
Saab-Scania 9½ 91	125	0		
Saskatchewan 10⅜ 92	100	0		
Saskatchewan 7 91	125	100⅛	−0½	7.41
Saskatchewan 10⅜ 90	125	0		
Saskatchewan 11⅞ 89	100	111⅛	−0½	7.20
Saskatchewan 16 89	125	0		
SAS 10⅜ 95	150	110	−0⅜	8.46
Scot Intl Fin 10⅜ 90	50	108	0	7.82
Sears O/S Fin 0 98	500	37⅜	−0⅛	8.91
Sears O/S Fin 11⅜ 93	150	120⅛	−0⅜	7.65
Sears Roebuck 10½ 91	150	105⅞	−0⅛	9.02
Sears Roebuck 11⅜ 91	150	0		
Shell Oil 9½ 90	250	105⅞	−0½	7.64
Standard Oil 10½ 89	150	102⅞	−0⅛	9.19
St Bk Sth Aust 9⅜ 93	100	106⅛	−0½	7.53
State Elec Vict 10 92	100	109⅜	−0½	7.83
Sth Aus Gov Fin 8/ 93	100	103⅜	−0½	7.95
Sumitomo Fin 11⅜ 92	150	118⅝	−0⅜	7.76
Sweden 8⅜ 94	150	102⅜	−0½	7.61
Sweden 10⅜ 92	250	112½	−0⅛	7.49
Sweden 12⅞ 89	200	0		
Swedish Export 11⅜ 88	100	108⅛	−0⅛	6.90
Taiyo Kobe 11⅞ 90	100	111⅜	−0½	7.59
Taiyo Kobe 12 90	100	114⅜	−0⅛	7.43
Tenneco Corp 11½ 89	150	104½	−1	8.83
Texaco Capital 13½ 89	200	106	−1	10.53
Texas Inst 11⅞ 91	150	107	−0½	9.71
Tokai Asia 11⅜ 95	100	119⅛	−0½	8.18
Tokyo Metro 8⅜ 96	200	101⅛	−0⅞	7.98
UBS 12⅜ 91	100	106½	−1⅛	10.27
Unilever Cap Cp 8⅞ 92	150	110⅜	−0⅜	7.50
Vict PBC Auth 8⅜ 96	100	100⅞	−0⅛	8.23
Warner-Lambert 8⅞ 96	100	100	−1⅛	8.12
Wells Fargo 13⅜ 91	100	118	−1	8.48
Weyerhauser 11½ 90	60	103⅜	−0½	10.21
World Bank 11⅜ 90	200	113⅛	−0⅛	7.06
World Bank 10⅞ 95	300	0		
World Bank 10⅞ 93	100	0		
World Bank 11⅜ 88	200	108½	−0½	6.62

FLOATING RATE NOTES	Issued	Bid price	Chg. on week	C.cpn
Alaska Housing 1/10 01	125	98⅞	0	6⅜
Alberta Province ⅛ 93	500	98⅞	0	3
Allied Irish ⅛ 95	100	99⅜	−0⅛	6¼
Amer S & L 0.15 96	200	100	0	6 5/16
Banco di Sicilia ⅛ 92	100	99⅜	0	6 5/16
Banco Roma 1/10 92	150	99⅜	0	6 3/16
Bank of Boston ⅛ 2000	200	99⅜	0	6
Bk of Montreal ⅛ 96	250	100⅛	0	6⅜
Bankers Tr NY ⅛ 94	200			5 15/16
Barclays O/S Inv ⅛ 04	350	100	0	5 11/16
BBL Intl 93	100	99	0	6 3/16
BBL Int 0.06 01	200			6⅛
Belgium 1/16 97	500	100⅛	0	4½
Belgium 2000	400	99⅜	+0⅛	6¼
Belgium 1/16 04	400	99⅞	0	6 3/16
Belgium 05	400	99½	0	6¼
BNP ⅛ 96	225			6⅛
BNP 05	300	99	0	6 5/16
Carteret ⅛ 94	125			6 5/16
CCF 97	250	99	0	6⅛
Central Intl 1/10 00	150	99⅛	−0⅛	6⅛
Centrust 0.15 96	100	99⅞	0	6¼
CEPME ⅛ 96 £	100	100⅛	0	11 7/16
Chase Manhattan ⅛ 93	150	99⅛	0	6⅛
Chase Manhattan 1/16 00	250			6½
Chase Manhattan ⅛ 09	400	100	+0⅛	6⅜
Citicorp O/S ⅛ 94	100	100	0	6 7/16
Citicorp 0.225 05	500	99⅜	−0⅛	6 5/16
Comalco Fin 93	180			6⅜
Commerzbank ⅛ 89	150	100	0	6 5/16
Council of Europe 93	50	99⅜	0	6
Cred for Exports ⅛ 92	165	100	0	6⅛
Credit Foncier ⅛ 00 £	100	100⅛	0	11½
Credit Foncier 1/16 94	70	100	0	7½
Credit Foncier 97	350	99⅜	0	6⅛
Credit Lyonnais 93	150			6⅜
Credit National 1/16 95	175	99⅞	+0⅛	7 7/16
Credit Natnl 1/20 2000	500			6 5/16
Eldorado Nuke 89	100	99⅞	0	5⅞
ENEL ⅛ 93 £	100	100⅛	0	11 9/16
ENEL ⅛ 00	300	100	0	6 11/16
Ferro Del Stat 1/10 95	100	100	0	6⅛
Ferro Del Stat 97	420	99⅞	−0⅛	6⅜
Finnpap ⅛ 95	100	100	0	6⅜
First Bk System ⅛ 97	100	97⅞	0	6¼
First Chicago 1/16 98	125	98⅛	0	6½
Ford Motor Cr ⅛ 91	200	99⅜	0	6 5/16
Genfinance ⅛ 94	100	100	0	6⅜
Grindlays ⅛ 94	100	100	0	6 7/16
GT Amer First Sav ⅛ 92	100			6⅛
GW O/S Fin ⅛ 94	100	99⅛	0	6⅛
Halifax BS 2/25 96 A)	150	99⅜	0	11½
Halifax BS 2/25 96 (B)	150	99⅛	+0⅛	9 11/16
Iceland ⅛ 00	125	99	0	6⅞
Ireland ⅛ 96 £	100	99⅞	0	11½
Ireland ⅛ 97	300	100	0	5⅞
Iavelmer ⅛ 90	175	99⅞	−0⅛	6 5/16
KB Ifima 0.15 11	150	99⅜	−0⅛	6 5/16
Korea Exchang Bk ⅛ 00	100	100⅛	0	6½
Korea Exchng Bk ⅛ 94	100	99¼	0	11 11/16
Lincoln S & L ⅛ 99	100	99⅞	−0⅛	6⅛
Lloyds Bank 1/16	500			6 5/16
Malaysia ⅛ 92	250	99½	0	6⅛
Malaysia 1/16 05	650	91⅞	−1⅛	6 5/16
Marine Midland 1/16 09	150	100	0	6 5/16
Midland Intl ⅛ 92	150	100½	−0⅛	6 5/16
Milk Marketing 1/16 93	75	99⅛	0	11 7/16
Mitsui Fin ⅛ 96	100	100	0	5 11/16
Mtg Intermed ⅛ 10 £	50	99⅜	0	11½
Nat Aust Bank ⅛ 97	100	98⅛	0	6½
Nat Bank Canada ⅛ 98	150	99⅜	0	6⅜
Nat Bank Canada ¼ 91	50	100	0	7
Nat Bank Canada 96	200	99⅜	0	6 11/16
Nat Bk Detroit ⅛ 96	100	99⅜	−0⅛	6 11/16
Nat West 1/16 05	400	100⅛	0	6 5/16
Nat West Fin ¼ 92	100	100	−0½	6⅜
Nat West Fin ⅛ Perp	500			6½
Nationwide 1/10 96	250	99⅛	0	11 7/16
Natl Com ⅛ 94	200	99⅛	0	6½
NBD Bancorp ⅛ 2005	100	99⅜	−0⅛	6⅞
ONGC 1/16 96	125	99⅞	0	6 5/16
Oster. Landbk ⅛ 99	100	100	+0⅛	5 11/16
Quebec Hydro 2002	200	95⅛	−0⅛	6⅛
Quebec Hydro 2002	200	97⅞	−0⅛	6⅜
Queensland Coal 1/20 98	308	99⅞	−0½	6¼
Renfe ⅛ 81	100	99⅞	−0⅛	6 5/16
Renfe 88	500	105	0	5 11/16
Scandinavia Fin ⅛ 90	20	100	0	11½
Scot Intl Fin ⅛ 92	100	100	0	6⅛
Sec Pacific ⅛ 92	100	99⅛	0	6 5/16
SNCB ⅛ 91	75	100⅛	+0⅛	6⅜
Sweden 1/16 2005	500	99⅛	+0⅛	6⅛
Taiyo ⅛ 04	100	99⅞	−0⅛	6 5/16
Takugin ⅛ 97	100	99⅜	−0⅛	6⅛
Thailand ⅛ 05	60	98½	+0⅛	6¼
Vereinwest O/S Fin 91	100	99⅞	−0⅛	6 5/16
Wells Fargo ⅛ 98	200	99½	−0⅛	6⅜
Wells Fargo ⅛ 97	250	99⅜	0	6 11/16
Wells Fargo ⅛ 00	200	99⅜	+0⅛	6⅝
Wells Fargo 1/16 96	50	99	0	6 5/16
Wells Fargo 0.225 92	150	99½	0	6⅜
Westpac Banking ⅛ 97	150	98⅞	0	6 7/16
Woodside Fin (Feb) 97	300	99⅞	0	6⅛
Woolwich Equit ⅛ 95	200	99⅞	0	11 7/16
World Bank 0.35 94	250	99	+0⅞	5¾
Zentral Und Kom ⅛ 91	30	99⅜	0	6 11/16

CONVERTIBLE BONDS	Issued	Bid price	Chg. on week	Prem.
American Bnkrs 5⅞ 01	70	102¼	−0⅜	34.07
BET 6⅜ 01 £	65	116⅛	−1⅜	−100.00
Canon 3 00	100	116½	−2½	0.49
Citizen Watch 3 00	50	131	−1	4.29
Eastman Kodak 6⅜ 01	300	119½	+1½	16.05
Elektrowatt 5 98	51	0		
Fanuc 3⅜ 98	80	224	−4	−2.38
Fujitsu 3 99	180	125½	−5	−1.44
Gibraltar Savings 7½ 06	100	104½	+0⅜	25.63
ITT 4⅜ 87	50	108½	+0½	2.00
Kaiser Aluminium 5 88	20	0		
Lorimar-Telepics 6 07	100	94½	−0⅛	97.46
Newmont Mining 7 01	100	121⅜	−1⅜	10.41
Nippon Seiko 3⅜ 98	70	[illegible]	−5	−3.18
Penney J C Int 4½ 87	35	107½	+0⅜	7.83
Rockerfeller Centre 0 00	952	27⅜	−0⅜	−71.31
Southwest Air 6⅞ 98	35	53⅜	+2⅜	49.61
Swiss Bank Corp 6⅜ 90	120	148	+1½	−10.27
Texaco Capital 11⅜ 94	500	103	−5⅜	32.90
Toshiba Ceramics 3 00	50	120½	−0⅜	6.40
Transco Int 8⅜ 95	50	0		

YEN STRAIGHTS	Issued	price	week	Yield
Allied Signal 6⅜ 93	20	106	0	5.63
Avon Products 6⅜ 91	25	105⅞	−0½	5.33
Barclays O/S 6 96	40	103	−0⅜	5.53
BFCE 5⅜ 96	20	101⅜	−0⅛	5.52
Canadian Pacific 6⅜ 96	10	107⅜	0	5.64
Denmark 6⅜ 92	20	109½	−0⅛	4.76
Dow Chemical 7 94	50	103⅛	−0½	6.37
Eurofima 6½ 95	15	105½	0	5.66
Eurofima 6⅞ 92	10	105⅜	−0⅞	5.40
FNMA 6⅞ 92	50	109	+0⅛	4.81
GMAC 6½ 90	25	105	−0⅛	4.67
Intel 6⅜ 92	12.5	102	−0⅛	2.11
Int-Amer Dev 7⅞ 93	15	106½	−0⅜	6.60
ITT 6⅜ 92	20	106⅜	−0⅜	5.21
McDonald Corp 6½ 92	25	106⅛	−0½	4.98
New Zealand 7½ 90	15	108	0	4.75
New Zealand 7⅜ 89	15	107	−0⅛	4.67
Penney J C 6⅜ 92	26	106⅛	−0⅜	5.26
Philip Morris 6⅜ 91	20	104⅜	0	5.19
Sallie Mae 6⅜ 92	25	109⅛	0	4.71
TRW 7 94	15	104	−0⅛	6.33
World Bank 7⅜ 93	20	113⅞	−0⅜	5.14
World Bank 8 93	20	114⅛	−0⅛	5.03

LUXFR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
Asian Dev Bank 8⅜ 97	400	99½	0	9.13
EIB 10½ 94	1bn	107⅛	0	9.06
Eurofima 10 94	600	104	0	9.24
Eur Coal & Stl 10½ 94	1bn	103½	0	9.80
Renault Acc 7⅜ 88	500	99¼	0	7.83

GUILDER STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 8 89	200	103½	−0⅛	6.01
ABN 7¾ 89	150	104	0	6.09
Amro Bank 7⅜ 89	150	103⅜	+0⅛	5.89
Amro Bank 8 89	200	103½	0	6.15
Beatrice Foods 8⅜ 93	100	104⅛	0	6.28
Bk Mees & Hope 8⅜ 89	100	104	0	6.11
CC Rabo 8 89	150	104	+0⅛	5.37
Denmark 8½ 91	100	107⅛	0	6.35
Int Stand Elec 8½ 89	100	104	0	6.31
New Zealand 8¼ 89	100	104⅞	−0⅛	6.17

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
AIDC 10 91	100	102⅜	−1⅜	9.15
Aust Resources 11⅜ 92	50	107⅜	−0⅞	9.50
Bank of Tokyo 10⅞ 92	75	103	−1	10.34
Bqe l'Indosuez 14 91	75	112	0	10.45
Br Col Munic 12⅞ 91	100	111½	−1⅛	9.18
Br Col Munic 13½ 91	100	114½	−1½	9.36
Br Col Tele 12⅜ 89	70	105⅛	−0⅜	11.41
Farm Cred Corp 12⅜ 90	75	110	−0½	8.87
Kredietbank 12 92	75	107	0	10.12
Lavau City 10⅜ 96	40	104⅞	−0⅞	9.91
Montreal City 12⅜ 91	50	110½	−1⅛	9.22
New Brunswick 12 95	75	112⅞	−1⅜	9.69
Nova Scotia 11⅜ 95	100	111⅛	−1⅜	9.57
Royal Trustco 10⅜ 90	75	104½	−1⅛	9.02

ECU STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN 9½ 92	100	101	0	9.24
Aegon NV 7⅜ 95	101	95½	−0½	7.98
All Nippon Air 9 95	130	106⅜	−0⅛	7.63
Australia & NZ 10⅜ 91	50	103	0	9.22
Austria 10⅜ 93	100	110½	−0⅛	8.38
BFCE 9⅜ 92	100	108⅛	−0½	7.72
BFCE 8⅜ 93	150	102⅛	0	8.16
BNP 8⅞ 95	75	104⅜	−0⅛	8.09
Caisse Nat Tele 9⅜ 92	75	108⅛	−0⅛	7.78
Chrysler Fin 9 92	75	100	−2½	8.99
Colgate-Palmolive 8 91	75	101⅜	−0⅛	7.48
Cred Lyonnaise 6⅜ 92	175	95⅜	−0½	7.50
Cred National 10½ 94	50	109⅜	−0⅛	8.70
Cred National 11⅜ 91	50	108	0	8.92
Creditanstalt 8⅞ 94	67	105½	0	7.96
Denmark 7⅜ 96	250	97½	−0⅜	8.01
Ebco Intl 10⅞ 89	55	102⅜	0	9.31
EEC 11⅜ 91	50	107⅜	0	8.98
EIB 9⅜ 95	200	105½	−0½	8.28
EIB 10⅜ 94	130	111⅜	−0⅜	7.85
EIB 11½ 92	75	108⅜	−0⅛	9.12
Genfinance 11 90	70	106⅜	0	9.18
Giro Vienna 10½ 93	60	108	+0⅛	8.87
GTE Finance 10⅞ 92	50	106⅜	+0⅛	9.24
Ireland 10⅜ 95	50	106⅞	−0⅛	8.99
Italian Govt 10½ 92	600	109½	−0⅛	8.34
Italian Trees 11½ 90	600	108	0	8.81
Italy 9⅜ 89	200	103⅞	−0⅜	7.39
Kredietbank L 9⅜ 92	75	102⅜	+0⅛	8.69
Morgan Gty Tst 8½ 90	100	103⅛	−0⅛	7.44
Royal Bk Can 10.5 89	85	102⅛	0	9.26
Swedish Export 11 89	57	103⅛	+0⅜	9.19
West LB 10⅞ 91	50	105⅜	0	9.22
World Bank 10⅜ 88	100	102⅞	+0⅛	8.79

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
BMW Fin A 13⅜ 96 SW	75	101½	0	13.44
Nat Aust Bk 12⅜ 89	50	95⅜	0	15.02
SBC Australia 12½ 90	50	98	−2⅜	13.18
Westpac Bkng 12⅜ 90	50	94⅜	0	14.67

STERLING STRAIGHTS	Issued	Bid price	Chg. on week	Yield
BAT Intl 10⅜ 91	100	0		
Denmark 10⅜ 88	75	100½	−0½	10.44
EEC 11⅜ 94	50	104	−0⅛	10.53
EIB 11⅜ 90	50	0		
Europart 11½ 92	50	103½	0	10.44
ICI 11⅜ 96	125	0		
Ind Bk Japan 11⅜ 95	30	101½	−0⅛	11.33
Int-Amer Dev 11½ 91	60	0		
Invest In Indust 10 93	60	0		
Ireland 11½ 94	50	102⅜	+0⅛	10.88
Leeds Permanent 10½ 91	50	0		
New Zealand 10⅜ 89	100	0		
Ryl Bk Canada 10⅞ 91	40	0		
World Bank 10⅜ 89	100	100⅜	−0⅛	10.25
World Bank 11⅜ 88	100	100⅜	−0⅛	10.74
Yamaichi Scs 3⅜ 91 XW	20	73½	+0½	11.22

EQUITY WARRANTS	Expiry date	Bid price	Chg. on week	Prem.
Casio Computer	6/3/89	38½	−2½	12.72
Daiwa Secs	7/5/91	0		
Fujita Corpn	9/9/91	22	−2	36.37
Futitsu	31/1/91	28	−2	32.09
Gunze	23/11/90	41	−4	−3.64
Minebea	22/5/91	12½	−1	9.28
Renown Inc	24/1/89	21	0	12.64
Seino Trans	17/3/89	76	−1½	−3.53
Sonoike Mfg	12/9/91	14½	−0½	24.62
Sony Corp	26/4/90	18	−0½	59.69
Sumitomo Corp	24/1/91	54½	−1½	−0.02
Toray Ind	10/12/90	62	+10½	16.50
UNY	17/6/91	11	+0½	61.13

BOND WARRANTS	Expiry date	Bid price	Chg. on week	yield
Aegon Ins 11⅜ 91	16/2/88	100	−5	8.34
Dart Kraft F 10⅜ 96	1/1/96	28	0	9.79
D Norske Cr 9⅜ 96	8/8/89	22	−2	7.90
Eksportfinas 13⅜ 89	15/9/87	125	−5	7.69
Holland Air 11⅜ 91	10/8/88	64	−3	9.21
Ind Bk Jpn 12⅞ 91	5/10/89	168⅜	+3⅜	8.32
Mitsubishi F 12⅜ 91	8/11/89	182½	+7½	8.31
J P Morgan 11⅜ 90	16/8/87	80	−3⅜	8.01
Nordic Iv Bk 7⅞ 96	30/10/91	21	−1	7.55
Texaco Cap 12⅞ 92	1/9/87	0		
Wlls Frgo A 12⅜ 91	27/12/89	101	−69	9.80
Weyerhsr C 11½ 90	15/11/87	82½	−7½	8.33

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on February 13.

January, 1987

BRITISH AIRWAYS Plc

US$2,300,000,000

Aircraft Financing Facility

relating to the financing of
16 BOEING 747-436 AIRCRAFT
AND ROLLS-ROYCE RB211-524D4D ENGINES

Secured Aircraft Financing

Arranging Banks

Barclays Bank PLC
Citibank, N.A.
Midland Bank plc
The Mitsubishi Trust and Banking Corporation
National Westminster Bank PLC

Lead Managers

The Bank of Tokyo, Ltd.
Credit Lyonnais
The Fuji Bank, Limited
The Hongkong and Shanghai Banking Corporation
The Mitsui Bank, Limited
The Sanwa Bank, Limited
The Sumitomo Trust & Banking Co., Ltd
The Tokai Bank, Limited
Westpac Banking Corporation
The Yasuda Trust and Banking Company, Limited

Managers

First Interstate Bank of California
The Kyowa Bank, Ltd
The Mitsubishi Bank, Limited
The Mitsui Trust and Banking Co., Ltd
The Nippon Credit Bank, Ltd
The Sumitomo Bank, Limited
The Taiyo Kobe Bank, Limited

Co-Managers

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Arab Banking Corporation (B.S.C.)
Banque Indosuez
Banque Nationale de Paris p.l.c.
Credit Agricole, London Branch
The Dai-Ichi Kangyo Bank, Limited
The Daiwa Bank, Limited
Istituto Bancario San Paolo di Torino, London Branch
Kansallis Banking Group
The Long-Term Credit Bank of Japan, Limited
Societe Generale, London Branch

Security Trustee
Barclays Bank PLC

Agent
National Westminster Bank PLC

Asset Value Underwriting

The First National Bank of Chicago
Manufacturers Hanover Trust Company
Citibank, N.A.
The Long-Term Credit Bank of Japan, Limited
The Mitsubishi Trust and Banking Corporation
The Toronto-Dominion Bank
The Bank of Nova Scotia
Banque Indosuez
Barclays Bank PLC
Credit Lyonnais
The Fuji Bank, Limited
The Industrial Bank of Japan, Ltd
Midland Bank plc
National Westminster Bank PLC
The Sumitomo Bank, Limited
Westpac Banking Corporation

Security Trustee
Midland Bank plc

Agent
Citibank, N.A.

Paying Agent
International Westminster Bank PLC

FACILITIES ARRANGED BY

BARCLAYS BANK PLC
CITICORP INVESTMENT BANK LIMITED
MIDLAND BANK plc
THE MITSUBISHI TRUST AND BANKING CORPORATION
NATIONAL WESTMINSTER BANK PLC

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Sappi lifts turnover and profit

By Our Johannesburg Correspondent

SAPPI, the South African pulp and paper maker, benefited strongly last year from a combination of increased domestic sales, higher export prices and favourable exchange rate shifts.

Turnover rose to R1.10bn ($526.3m) from R761m and pretax profits were R108.1m against R60.1m. Mr Tom de Beer, the chairman, says that interest costs were sharply reduced by lower interest rates and the financial restructuring of the company which followed October's R201m rights issue.

Domestic paper prices were increased and are now at satisfactory levels. Production problems at the new Ngodwana pulp mill have been overcome with the commissioning of a new turbine, he adds.

DEVELOPERS MEET INVESTOR RESISTANCE TO MORTGAGE PLACEMENT

Triple Five shelves funding plan

BY BERNARD SIMON IN TORONTO

INVESTOR hesitancy has led the owners of West Edmonton Mall, the world's biggest shopping centre, to shelve plans for a C$480m (US$358m) private placement of long-term mortgages secured by the mall.

Triple Five, which is controlled by the four Iranian-born Ghermezian brothers, blamed difficulties in marketing the issue to the slump in the Alberta economy, brought about by depressed energy and grain markets. The company has asked the Alberta provincial government to participate in a restructured financing.

A securities dealer involved in the financing said that investors were also put off by the Ghermezians' "controversial and flamboyant operating style," and by the absence of a track record for the final phase of the unique shopping, entertainment and hotel complex.

The 5m sq ft mall, which was completed in mid-1986, includes 826 shops, a full-size ice hockey rink, 47 amusement rides, and a "water park" with six-foot high waves for surfing and an artificial sun for year-round tanning. The rooms of the New Fantasyland hotel have such unusual themes as a truck stop, a south sea island and an Arabian harem.

Despite criticism from other developers that West Edmonton's emphasis on entertainment attracts tourists rather than shoppers, a Triple Five consultant said that retail sales and shop rentals at the mall have remained steady.

Triple Five is due to start construction on a similar US$550m mall in the US town of Bloomington, on the outskirts of Minneapolis, within the next three months. The Ghermezians submitted a final development plan for the project last month and have paid a US$5m deposit for the mall site.

The aborted mortgage placement was needed to replace short-term, floating-rate debt used to finance construction of the West Edmonton mall.

● Canadian Pacific's two most troubled subsidiaries, Algoma Steel and Amca International have reported lower revenues for 1986, and big losses after special charges, but also significant reductions in debts, writes Robert Gibbens in Montreal.

Algoma, Canada's third largest steel firm, is being reduced in size as a result of depressed markets for pipe and rail products. Amca, with subsidiaries making oil service products and machine tools mainly in the US, has been selling assets and hopes to reduce interest costs.

Algoma has cut its debt significantly to about C$500m at the end of 1986, and reported an operating loss of C$53.4m for the year

Amca had a 1986 loss of US$72.6m against a profit of US$16.8m in 1985, on revenues of US$1bn against US$1.2bn.

Finnish bank to sell stake in ferry group

By Olli Virtanen in Helsinki

UNION BANK OF FINLAND is to sell its majority holding in Sally, the Finnish shipping company, to a newly-formed joint venture company set up between Effoa, the Finnish shipping line and The Johnson Line of Sweden. The new company is understood to have a 70 per cent share of Sally, which operates ferry boats between Ramsgate and Dunkerque and Finland and Sweden as well as a cruise ship service in the West Indies. Union Bank of Finland will have a 20 per cent share of the joint venture company.

UBF took control of Sally in 1984 when the shipping line was about to go under. The bank's holdings in Sally consisted of shares and convertibles.

Milan bourse debut for merchant banks

BY ALAN FRIEDMAN IN MILAN

SIGE, the Milan-based and state-controlled merchant bank which has emerged over the past couple of years as Italy's fastest growing corporate finance concern, is to be merged this spring with Italfinanziaria.

The merged bank, to be called Italsige, is then planning to make its debut on the Milan bourse with the flotation of between 20 per cent and 30 per cent of its equity. The operation is likely to raise around L400bn ($308m).

The merger of Sige and Italfinanziaria, both of which are owned by IMI, the state credit institute, will create a powerful new merchant banking group. Sige has already distinguished itself in the Italian financial world as an aggressive merchant bank. It has lead-managed more than L1,000bn of recent share issues and claims to have around 40 per cent of Italian corporate finance business.

The merger will create a group with L24,000bn ($18.5bn) of funds under management.

The Sige-Italfinanziaria merger plan comes in the wake of recently unveiled government guidelines on the formation of new merchant banks. The new ground rules are expected to see a number of commercial banks set up merchant banking subsidiaries. The new rules are also expected to spur the creation of new merchant banking subsidiaries of foreign banks.

Sige, which has organised major stock market debuts for Benetton, Comau, Assitalia and other companies, has helped to erode the market supremacy of Mediobanca, the traditional power house in Italian merchant banking, hit lately by political squabbles.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Tokyo Dept. Store ¶‡	80	1992	5	3	100	Nomura Int.	3.000
Keihan Elec. Railway ¶‡	70	1992	5	3	100	Nikko Secs. (Europe)	3.000
Toyoda Tsusho Kaisha ¶‡	70	1992	5	3	100	Nomura Int.	3.000
Kyotaru Co. ¶‡	65	1992	5	3	100	Nomura Int.	3.000
Tokyu Store Chain ¶‡	50	1992	5	3	100	Nomura Int.	3.000
Kobe Elec. Railway ¶‡	33	1992	5	3⅛	100	Nikko Secs. (Europe)	3.125
Cargill ‡	150	1997	10	8¼	100¾	Merrill Lynch	8.138
Daiwa Europe ‡	100	1992	5	7⅜	101⅜	Daiwa Europe	7.039
Gefco ‡	150	1997	10	7⅝	101	Lloyds M'chant Bank	7.479
IBM Credit Corp. ‡	200	1990	3	6¾	101.05	CSFB	6.355
Union Bk of Finland ‡	50	1992	5	0	70.20	Daiwa Eur, Yasuda Tst	7.333
KB Hime ¶‡	100	1994	7	4½	100	Warburg Securities	4.500
Mgn. Guaranty Trust ‡	150	1990	3	7	101.05	Morgan Guaranty	6.603
Eurofima ‡	100	1997	10	7⅞	101⅜	Banque Paribas	7.673
Philip Morris ‖‡	100	1989	2	6⅞	106⅛	Citicorp Inv. Bank	3.644
Corp. Property Inv. ‡	100	1997	10	8¾	101⅛	Morgan Guaranty	8.578
Norges Kommunalbk ‡	100	1997	10	7⅞	101¾	SBCI	7.619
Woolwich Bld. Soc. ‡	150	1994	7	8	101¾	County NatWest	7.568
Xerox Credit Corp. ‡	100	1990	3	7	101⅛	Nomura Int.	6.575
CANADIAN DOLLARS							
Le Groupe Videotron §‡	25	2002	15	7½	100	Banque Paribas	7.641
AUSTRALIAN DOLLARS							
Banco di Roma ‡	50	1990	3	15	101⅜	Goldman Sachs	14.484
Bremer Landesbk ‡	50	1990	3	14¾	101⅞	Orion Royal Bank	14.156
Kraft Inc. ‡	100	1992	5	14½	101½	Commerzbank	14.082
NEW ZEALAND DOLLARS							
Toronto-Dominion Bk ‡	50	1990	3	18	101¼	Hambros Bank	17.430
D-MARKS							
Black and Decker ‡	100	1994	7	5¾	100¾	CSFB-Effectenbank	5.617
Austria ‡	100	1993	6	5⅜	100	Dresdner Bank	5.375
Austria ‡	500	1997	10	5⅞	100	Dresdner Bank	5.875
Austria ‡	100	2002	15	6¼	100¼	Dresdner Bank	6.224
World Bank **‡	200	1993	6	5½	100¼	Deutsche Giroz'trale	5.460
Oil & Nat. Comm. (India) ‡	150	1994	7	6⅜	100	Commerzbank	6.375
Prov. of Quebec ‡	300	1997	10	6	100½	Commerzbank	5.932
Krones Finance ¶‡	20	1994	7	6⅛	140	Commerzbank	–
Bank of Greece ‡	200	1994	7	6¾	100	WestLB	6.750
AGAB Finance ¶‡	60	1994	7	3½	100	DG Bank	3.500
Wacker Chemicals ‡	75	1994	7	6⅛	100	Deutsche Bank	6.125
SWISS FRANCS							
Wormald Int. Fin. ¶‡	100	1992	–	3	100	Warburg Soditic	3.000
Izutsuya Dept. Store **¶‡	30	1992	–	1⅞	100	Handelsbank	1.875
Mountleigh Finance §‡	125	1997	–	3¼	100	Warburg Soditic	3.276
Ind. Dev. Bk India ‡	100	1997	–	5⅝	100	SBC	5.625
Asian Dev. Bank ‡	150	1999	–	4¾	99¾	UBS	4.778
Eidensha Co. **¶	35	1992	–	(2)	*	B.della Sviz. Italiana	*
Fuji Electrochemicals **§	40	1992	–	(1¾)	100	Crédit Suisse	*
Dai-Ichi Seiko Co. **‡	20	1992	–	4¾	100½	UBS	4.636
Toyo Comm. Equipment **‡	50	1992	–	4⅝	100	B.della Sviz.Italiana	4.625
Nat.Bk. of Hungary **‡	50	1994	–	5⅜	100	Bqe Gutzwiller, K.B.	5.375
Cofiroute ‡	30	1992	–	4½	100¼	Bqe Paribas (Suisse)	4.443
Cofiroute ‡	50	1993	–	4⅝	100¼	Bqe Paribas (Suisse)	4.576
Chevron Corp. ‡	200	1997	–	4⅝	100½	SBC	4.562
Toyoshima & Co. **‡	20	1992	–	4¾	100½	Tokai Fin. (Schweiz)	4.636
ICN P'maceutical (c)§	50	1997	–	(3–4)	(100)	Finitralex	*
FRENCH FRANCS							
Bank of Tokyo (a)†‡	400	1992	5	40bp	100	Banque Indosuez	–
STERLING							
Redland Capital §‡	60	2002	15	7¼	100	Baring Brothers	7.250
Banque Indosuez ‡	50	1992	5	10¼	101¾	Kleinwort Benson	9.791
McDonald's Corp ‡	50	1992	5	10	101	Kleinwort Benson	9.738
Alliance & Leicester ‡	40	1992	5	10¼	101⅛	Bankers Trust	9.954
Halifax Building Soc. ‡	100	1997	10	10⅜	100⅞	Morgan Grenfell	10.231
ASDA-MFI §‡	120	2002	15	4¾	100	CSFB	4.750
W.H. Smith & Son §‡	50	2002	15	7⅛	100	Baring Brothers	7.125
Trusthouse Forte ¶‡	85	1992	5	10¼	119	Samuel Montagu	5.768
ECUs							
City of Copenhagen ‡	75	1997	10	8	100⅝	Kreditbank	7.944
Credit National ‡	125	1990	3	7⅞	101¼	Crédit Lyonnais	6.906
CIR Int. ‡	100	1994	7	8⅛	101	Morgan Guaranty	7.933
Soc. de Dev. Regional ‡	90	1995	8	7¾	100⅝	Banque Paribas	7.621
LIRE							
Bank of Tokyo ‡	50 bn	1992	5	10¼	100	B. Comm. Italiana	10.250
YEN							
European Community ‡	25 bn	1993	6	4¾	101½	Daiwa Europe	4.460
Nat. Australia Bank ‡	15 bn	1992	5	(b)	101⅞	Nomura Int.	–
Bergen Bank ‡	15 bn	1992	5	5	101⅞	Daiwa Europe	4.572
B.Naz. del Lavoro ‡	20 bn	1992	5	5½	104¼	Nomura Int.	4.531
Royal Bk of Canada ‡	10 bn	1992	5	4⅞	101⅝	Daiwa Eur, Yasuda Tst	4.505
Nat. Bank of Hungary ‡	20 bn	1997	10	5.7	100	Daiwa Secs.	6.781
Investors in Ind. ‡	12 bn	1993	6	5	101½	Warburg Securities	4.707

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate note. ¶ With equity warrants. Φ With bond warrants. § Convertible. ‖ With currency warrants. (a) 40bp over 13-week Treasury Bills. (b) Coupon: years 1 and 2 – 1%, 7.825% remainder. (c) Double convertible.
Note: Yields are calculated on AIBD basis.

Takeover offer for A. H. Robins withdrawn

BY ANATOLE KALETSKY IN NEW YORK

AMERICAN HOME Products has dropped its takeover bid for A. H. Robins, the bankrupt healthcare company which faces billions of dollars in liability claims from women injured by its Dalkon Shield intrauterine contraceptive.

Robins' share price, which had more than doubled last week to peak at $24 in response to AHP's unexpected merger offer, fell back to around $14 after yesterday's announcement.

AHP said it had withdrawn its offer, the value of which was never publicly quantified, because it was "not worth the risk of going forward" in view of "uncertainties surrounding the situation which have not been clarified to our satisfaction."

The company refused to elaborate, but it had stated from the outset that its bid would be conditional on a full permanent resolution of the 300,000-odd liability claims against Robins.

AHP was prepared to set up a trust fund worth up to $1.5bn to compensate the Dalkon Shield claimants. But lawyers representing the claimants made clear over the weekend that a larger trust fund might be required, while Robins' directors were unhappy that too little of AHP's money would be left over for Robins' shareholders.

HK property group plans rights

UNION V-TEX REALTY, a Hong Kong property group, plans to raise HK$137m through a rights issue in order to finance the purchase of a major stake in Wah Kwong Properties, writes our Financial Staff.

The rights will be a one-for-four at HK$2.50 a share. The new shares will be accompanied by warrants entitling shareholders to subscribe for two shares in Union V-Tex at HK$3.50 each.

Full conversion of the warrants, which can be converted up to mid-1991, is expected to provide Union V-Tex with an additional HK$394m.

Union V-Tex was recently taken over by Asia Securities, owned by Australian businessman Mr William Wylie, which will inject 120m Wah Kwong shares into the company at HK$ 1.45 per share. The company will then change its name to Asia Securities International.

Martin Dickson looks at Dalgety, a possible target for a takeover bid

Offering the City a menu to study

THE IMAGE builders have descended on Dalgety, the food and agricultural products business. It has hired one of the City's leading public relations companies and recently launched a press advertising campaign to sing its praises. "Dalgety," runs the punchline, "a name that goes from strength to strength."

When a company starts trying to improve its profile in this manner it usually means one of two things: that it feels the City does not fully appreciate its merits, or that it fears it may find itself on the receiving end of a takeover bid.

In the case of Dalgety — which will announce its interim results today — both factors seem present. For months now, Stock Market rumours have presented it as a possible takeover target. And Hillsdown Holdings, the highly-acquisitive foods group, is known to hold a stake in the company (though this has apparently been reduced in recent months to under 3 per cent).

Yet Mr Terry Pryce, Dalgety's chief executive, insists that "we don't run this business looking over our shoulder." The purpose of the campaign, he says, is to counter misconceptions about the company, such as it still being very much an Australian agricultural trading business. He wants to get across the message that it is now primarily a food products group with a "lean and hungry" management and strong brands, including Spillers' flour, Winalot dog food and, since last autumn, Golden Wonder crisps.

Whatever the reason, Dalgety has certainly got some bridge-building to do with the City, where it has yet to be forgiven for its ill-starred £120m acquisition of Gill & Duffus, the commodity trading group, in 1985.

That deal was criticised at the time on strategic grounds, since it seemed to reverse Dalgety's long-time policy of reducing its dependence on cyclical commodity trading. Financially, too, it has been far from happy. Dalgety did not pay a particularly high price for the business, but the dull performance of soft commodity markets since has meant some dilution of earnings.

Even worse, the collapse of the International Tin Council left Gill & Duffus/Dalgety with a £28m extraordinary write-off in the 1986 accounts. Dalgety could hardly have foreseen this, but it nevertheless left the impression of a company that had become a trifle accident prone.

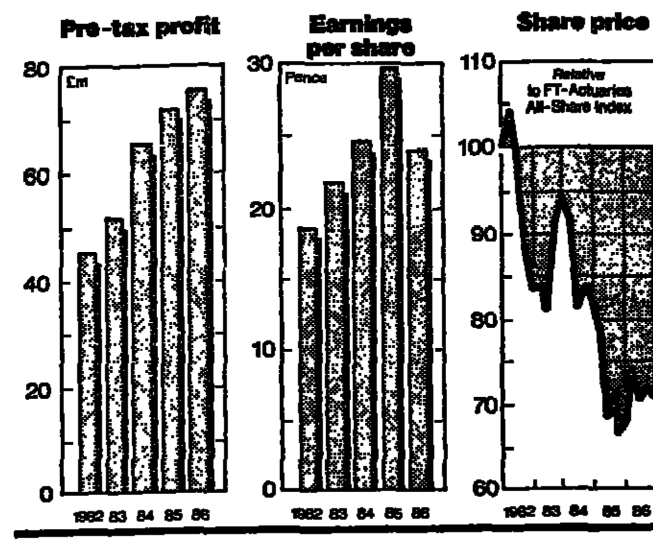
The fall from grace was perhaps the greater because of the contrast with the group's success over the previous decade in making one of Britain's most remarkable corporate metamorphoses.

Dalgety was founded more than 140 years ago to sell farm supplies to Australia. And that is what it remained until the 1970s, when a young new management team set about turning it into a broadly-based food and agricultural business with strong British and North American legs.

Among the team was Mr Pryce, now 52, who took over as chief executive five years ago. A slim, wiry man with an open manner, he comes from Welsh farming stock—"I know what it is to milk cows, because I had to do it by hand as a kid"—and is a food technologist by training. He learnt management as an employee of Charles Forte, joined Dlgety in 1970 and was given the task of building up its UK interests from scratch.

Dalgety's transformation was carried out with remarkable speed, largely by buying problem businesses cheaply—such as Spillers, acquired in 1979 after a bitter takeover battle—and then turning them round. The financial record was also good, with pre-tax profits rising from £41.2m in 1981 to £72.3m in 1985.

All this has gained Dalgety's management considerable respect among City analysts. "They have shown themselves to be good turners-round of businesses," says Mr David Lang, of brokers Henderson Crosthwaite. Yet to the wider investment community the company remains anonymous and a competitor in some very mature, cut-throat business.



Terry Pryce

It is this image Mr Pryce is out to change. Dalgety used to classify its businesses by geographic area, a hangover, perhaps, from Australian days. But now the emphasis is on product sectors.

Mr Pryce is at pains to point out that food interests now account for more than 40 per cent of sales (against around 25 per cent for agricultural inputs and services and 25 per cent for commodities) and it is this side of the business which will see most expansion, particularly into higher value-added products.

A prime example is Dalgety's purchase last October of Golden Wonder, the snacks foods business which Hanson Trust had acquired in its takeover of Imperial Group. Some critics claimed at the time that Dalgety may have paid too much. However, it faced strong competition to win Golden Wonder; the final price was £82m, rather than the £87m initially announced; and there should be no dilution of earnings this year, with the prospect of a considerable enhancement in 1988 as Dalgety's team integrates and rationalises the business. It has already announced the loss of 600 jobs with the closure of a Scottish factory.

Golden Wonder is one of the UK's big three snacks manufacturers and has a monopoly in Pot Noodles. A serious strike two years ago led to a significant loss of market share, but it is now clawing this back and the industry's prices and margins are much improved.

Dalgety is very bullish about the longer term possibilities of the UK snacks market, which is far less developed than in the US. Yet, as the recent price war showed, this is an extremely competitive sector, with an excess of manufacturing capacity.

Mr Pryce cites snacks as an example of a growth market where Dalgety has a strong presence. Others include chilled foods (it is a major supermarkets supplier) seasonings, and Martin Brower, the largest fast food distribution business in the US.

Petfoods is a market expanding in the UK at about 5 per cent a year and Dalgety's Spillers, the market leader in dry meal and biscuits, is making a concerted attack with new products on the leader in the canned sector, Mars' Pedigree.

Dalgety may be involved in some motor businesses, but says Mr Pryce, there are good profits to be made in them if you can keep ahead of the competition. And, he says, Dalgety occupies first or second position in 75 per cent of the markets in which it operates. This gives it particular muscle, and an ability to combat problem sectors which are not growing, such as U Kanimal feeds, which is being hit by the cutbacks in EEC milk quotas.

The UK agricultural side of the business may see some small add-on acquisitions over the next few years — for example as small UK feed processors drop out of this tough market — and so too may the commodities operations. But any major acquisitions are likely to be in foods, while the company will continue to divest itself of peripheral activities to boost the quality of earnings.

It recently sold Lloyds broker Clarkson Puckle for £43.1m to Inchcape and ABM Chemicals to Rio Tinto-Zinc for about £30m. There has been speculation that it might divest some of its poorly-performing engineering interests.

It retains Australian farming interests, and is one of the big two suppliers serving the outback community. But two years ago it was forced by the country's foreign investment regulations to cut the stake to 49 per cent. A change of Government policy means this has now gone back to 51 per cent and Dalgety would like to increase it to around 70 per cent to consolidate control.

The change of the Australian business from subsidiary to associate knocked about £4m off Dalgety's 1986 pre-tax profits, which were also badly hit by currency movements and only crept forward 4 per cent to £75m. Earnings, hit by both currencies and Gill & Duffus, slumped from 29.7p to 24p.

Analysts are expecting the group to announce interim pre-tax profits today of between £40m and £42.5m, compared to £35.4m in the same period of last year. But much of that advance is likely to be due to a three-month contribution from Golden Wonder and a particularly strong performance from its Canadian lumber interests. Full-year profits are projected at around £89m, which would give earnings per share of about 26.5p—still below 1985.

Nevertheless, the market's perception of the company does seem to have improved somewhat. With the shares at 325p, it now stands on a prospective p/e of about 12, roughly the sector average, while the shares are underpinned by a strong 6.5 per cent yield.

That is still well below high-fliers like Hillsdown. Yet Hillsdown is a company which has grown by friendly rather than hostile bids and its brief intervention last year in the tangled takeover manoeuvres surrounding British Sugar may have made it less enthusiastic for the battle it would have on its hands with Dalgety.

Nonetheless, Mr Pryce is anxious to get his company's rating up further. "Our strategy has always been in place," he declares, "but in the past we did not explain it to those who own us."

A company may get away with that when earnings are constantly rising but not when a badly-digested acquisition produces hiccups.

Goldcrest in £6m refinancing package

BY NIKKI TAIT

Goldcrest, the independent film company which ran into financial difficulties two years ago, has agreed in principle to a refinancing package. This would give an American property developer, Mr Earle Mack, an 85 per cent stake in the company in return for a cash injection of just under £6m.

The deal specifically excludes a couple of Goldcrest's assets—including the revenues from The Mission, the £17m David Puttnam film which has won critical acclaim and is currently proving a success in Europe and New York.

The refinancing package, which requires shareholder approval, will substantially dilute existing interests. Although the larger shareholders—including Pearson, the diversified group which owns the Financial Times and currently holds a 41.2 per cent stake in Goldcrest, Electra Investment Trust, the Coal Board Pension Fund and Noble Grossart, the Scottish investment house—are supporting the deal, smaller investors are rumoured to be less happy.

Goldcrest was founded 10 years ago by Mr Jake Eberts, a Canadian investment banker, who left the company to join Embassy Communications International at the end of 1983. A few months after Mr Eberts' departure, Goldcrest raised a further £22m from institutional shareholders, to finance film and TV productions.

However, after reporting a small profit in 1984, Goldcrest was forced to write-off £20m just over a year ago—largely due to losses on Revolution, which overran its budget and was subsequently panned by the critics. Since then, Mr Eberts, who returned as chief executive in August 1985, has been anxious to attract new cash in order to enable the company to start investing in film production again.

Amongst the films in which Goldcrest has been involved, are Chariots of Fire, Local Hero, The Killing Fields, and Gandhi.

BOARD MEETINGS

TODAY

Interims:—Dalgety, Elders IXL, Framlington Far East Fund, Goodhead Print, Ryman, Sigmex International, TR City of London Trust.

Finals: Citygrove, Ericsson, Scottish Eastern Investment Trust.

FUTURE DATES

Interims—

AC Holdings	Feb 17
Fletcher Challenge	Mar 4
Harrisons Malaysian Plantations Berhad	Mar 11

Finals—

Bowthorpe	Mar 25
Marlborough Technical Management	Apr 7
Metal Bulletin	Feb 24
Palma Group	Mar 2
Yorkshire Chemicals	Feb 25
Sale Tilney	*Feb 27

* Amended.

PENDING DIVIDENDS

	Date	Announcement last year
Anglo American Gold	Mar 5	Final 825c
Armstrong Equipment	Mar 19	Interim 0.75
*BAT Inds	Mar 25	Final 7.35
*BP	Feb 19	Final 22.0
BTR	Mar 12	Final 5.0
*Barclays Bk	Feb 26	Final 10.2
Barratt Developmts	Mar 20	Interim 3.254
Bejam	Mar 12	Interim 2.0
Berisford (S. and W.)	Feb 24	Final 7.0
*British Vita	Mar 9	Final 3.75
Britoil	Mar 20	Final 9.0
*Cadbury Schweppes	Feb 26	Final 4.3
*Commercial Union	Mar 4	Final 6.95
*Cons Gold Fields	Mar 4	Interim 8.5
DRG	Mar 19	Final 4.95
Delta	Mar 21	Final 4.15
*Dalgety	Feb 16	Interim 5.5
De Beers	Mar 11	Final 40c
Exco	Mar 21	Final 2.6
Expamet International	Mar 18	Final 5.0
Fisons	Mar 4	Final 3.34
General Accident	Mar 5	Final 14.0
General Mining	Mar 13	Final 140c
Grattan	Mar 21	Final 4.0
Guest Keen	Mar 12	Final 7.5
Hepworth Ceramic	Mar 19	Final 4.3
Hillsdown	Mar 11	Final 3.0
*Hongkong Shanghai Bk	Mar 10	Final $0.31
*ICI	Feb 26	Final 20.0
Legal and General	Mar 20	Final 16.0
*Lloyds Bank	Feb 27	Final 13.5
McAlpine (A.)	Feb 24	Final 8.7
Marley	Feb 24	Final 2.35
*Midland Bank	Mar 4	Final 14.5
*NatWest	Feb 24	Final 18.2
*Peachey	Feb 18	Interim due
Plessey	Feb 20	Interim 2.072
*Royal Insce	Feb 26	Final 16.56
Rowntree Mackintosh	Mar 13	Final 8.2
*Shell	Mar 6	Final 22.6
Sime Darby	Mar 8	Interim due
Smith and Nephew	Mar 20	Final 3.25
TI	Mar 6	Final 5.0
Transport Dev	Mar 10	Final 4.5
Turner and Newall	Mar 20	Final 3.85
Ultramar	Mar 12	Final 6.5
*Utd Biscuits	Mar 18	Final due
*Vickers	Feb 23	Final 8.0
Williams Holdings	Mar 6	Final 8.0
*York Chems	Feb 25	Final 3.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast

Lazard Freres takes near 5% of Pearson

MR Michel David-Weill, senior partner at Lazard Freres, the New York investment house, and other partners in Lazard Freres in Paris, have acquired a holding of just under 5 per cent in S. Pearson, the industrial, banking and publishing group whose interests include the Financial Times.

Mr David-Weill, who is a non-executive director of Pearson, notified the Stock Exchange of the purchase of 8.12m shares, in the company—just under 4 per cent—in mid-January. Pearson has a 50 per cent interest in Lazard Brothers, the UK merchant bank, and owns smaller stakes in Lazard Freres, the US house, and Lazard Freres et Cie in Paris.

Pearson shares have been subject to bid speculation in recent months. Last October, directors indicated that any increase in the 4.9 per cent stake in the company held by Hutchison Whampoa, a Hong Kong trading group, would not be welcomed.

G. T. ASIA (STERLING) Fund: Income £258,758 (£259,623) and expenditure £242,480 (£59,606) for year to end-September 1986. Net assets £23.68m (£15.72m). Earnings per share 5.2p (51.6p) and dividend of 40p per part redeemable preference share.

Satisfactory progress continues at A. Lee

Mr Peter Lee, chairman of Arthur Lee and Sons, Sheffield-based producer of cold rolled steel strip, told the annual meeting that after four months of trading in the current financial year, satisfactory progress continued.

The group's balance sheet remained strong, and directors were encouraged by cheerful economic forecasts for the remainder of the year, he said. Looking further ahead they attached even greater importance to the potential for improving operating performance and for group expansion by acquisition.

In the steel division, Steel Strip's results to date reflected the good market conditions, Steel Wire had continued to perform well, while Bright Bars had recently introduced a significant restructuring of its prices.

FT Share Information

The following securities have been added to the Share Information Service.

Benson SBG (Section: Industrials).

British Gas (Oil and Gas).

Nationwide Bldg. Soc. 11½pc 18/1/88 (Building Societies).

Publishing Hldgs. (Third Market).

FINANCIAL TIMES STOCK INDICES

	Feb. 13	Feb. 12	Feb. 11	Feb. 10	Feb. 9	Feb. 6	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.18	85.86	85.80	86.00	86.12	86.24	94.51	80.39	127.4	49.18
Fixed Interest	92.82	92.73	92.67	92.81	91.80	92.81	97.68	86.55	150.4	50.53
Ordinary	1521.0	1501.0	1508.9	1493.0	1516.6	1508.9	1521.0	1094.3	1521.0	49.4
Gold Mines	308.7	319.0	320.7	318.5	319.2	319.3	357.8	185.7	734.7	43.5
FT-Act All Share	943.92	935.71	941.41	932.39	947.20	941.18	947.20	664.42	947.20	61.92
FT-SE 100	1898.1	1878.6	1895.8	1874.9	1910.7	1898.4	1910.7	1370.1	1910.7	986.9

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Abbey Unit Tst. Mngrs. (a)
80 Holdenhurst Rd, Bournemouth 0345 717373

	Bid Price	Offer Price	+ or −	Yield Gross
High Income				
American Income	51.1	54.3	....	4.85
Gilts & Fixed Int.	109.3	115.6	+0.3	10.38
High Inc Equity	109.7	116.6xd	+0.5	4.46
Worldwide Bond	202.3	215.2xd	−0.8	4.51
Capital Growth				
American Growth	167.4	178.0xd	−0.3	0.79
Asian Pacific	66.5	70.7	−0.1	1.40
Assets & Engy. Tst.	127.6	135.7	+0.7	2.11
Capital Reserve	67.8	68.2	+0.2	1.48
Commodity & Engy.	113.7	120.9	+0.1	0.94
European Capital	95.7	101.8	+0.1	1.25
General	155.1	164.9xd	+0.6	2.58
Japan	77.1	82.0	−0.6	0.0
Mastertrust	72.1	76.7	....	2.14
UK Growth Acc Units	176.4	187.6	....	0.84
UK Growth Dist	122.1	129.8	....	1.21
U.S. Emerging Co's	58.3	62.0	+0.6	0.08
Equitas Prog	243.7	259.2	+0.7	2.78

Allied Dunbar Unit Trusts PLC (a)(c)

Barrington Mgmt Co Ltd (z)
10 Fenchurch Street London EC3 01-623 8000

	Bid Price	Offer Price	+ or −	Yield Gross
American Smaller Co	67.6	71.3xd	−0.1	0.94
(Accum Units)	69.4	73.2	−0.1	0.94
European Fund	101.7	107.3	+0.2	1.22
(Accum. Units)	125.4	132.3	+0.2	1.22
Fund of Inv Ts.	24.6	26.0		1.78
(Accum. Units)	31.6	33.3		1.78
General Fund	189.3	199.7xd	−1.0	2.61
(Accum. Units)	261.7	276.1	−1.4	2.61
Gilt Yield	112.2	115.6	+0.3	10.13
(Accum Units)	184.9	190.5	+0.5	10.13
High Yield	103.8	109.5	....	4.54
(Accum Units)	210.7	222.3	−0.1	4.54
Int Recovery Fund	112.1	118.3	+0.6	1.86
(Accum. Units)	118.5	125.0	+0.6	1.86
Japan Fund	237.1	251	−3.5	0.47
(Accum. Units)	238.9	252.0	−3.4	0.47
Japanese Special	111.2	117.2	−1.7	0.25
(Accum. Units)	111.6	117.1	−1.7	0.25
North American	56.6	59.7	+0.3	0.69
(Accum. Units)	65.8	69.4	+0.3	0.69
Pacific Fund	146.0	154.0	−1.3	0.56
(Accum Units)	164.5	173.5	−1.5	0.56
Planned Investments	145.9	154.3	....	3.45
Smaller Companies	98.5	103.9	+0.5	0.87
(Accum Units)	117.5	124.0	+0.7	0.87
UK Equity Growth	31.2	32.9xd	+0.1	0.51
(Accum Units)	31.7	34.3	+0.2	0.51
Worldwide Tech	44.6	47.1	+0.2	0.00
(Accum Units)	45.0	47.5	+0.2	0.00
KB High Yield	151.2	159.5	−0.8	4.75

Commercial Union Trust Managers
S. Helen's, 1 Undershaft, EC3P 3DQ
Dealing 01-686 9818

	Bid Price	Offer Price	+ or −	Yield Gross
CU UK & General	51.7	55.3	+0.4	3.15
Do Accum	51.7	55.3	+0.5	3.15
CU Income	51.5	55.1	+0.4	4.53
Do Accum	51.7	55.3	+0.4	4.53
CU Worldwide Spec Sits	50.2	53.7	+0.2	1.86
Do Accum	50.2	53.7	+0.2	1.86

Confederation Funds Mngt Ltd (a)
50 Chancery Lane, WC2A 1HE 01-242 0282

	Bid Price	Offer Price	+ or −	Yield Gross
Growth Fund	284.5	299.4	....	3.94

Cornhill Unit Trust Mngrs Ltd
PO Box 136, Beckenham, Kent BR3 4XR, 01-658 9611

	Bid Price	Offer Price	+ or −	Yield Gross
UK Equity Inc & Acc.	61.2	65.1	+1.0	3.5
Intnl. Inc & Acc.	55.5	59.0	+0.5	2.0

County Unit Trust Managers
161 Cheapside, London EC2V 6EU 01-726 1999

	Bid Price	Offer Price	+ or −	Yield Gross
Energy Tst.	52.2	55.2xd	....	3.80
European Growth Tst.	78.3	82.9	....	0.64
Extra Inc.	189.3	200.4xd	....	4.68
Financial	194.2	205.6xd	....	1.96
Gilt Strategy	58.1	59.9	....	2.09
Global Inc Trust	63.0	66.7	....	5.17
Growth Investment	326.4	345.4xd	....	2.18
Income & Growth Tst	47.2	49.9xd	....	3.95
Japan Recovery Tst.	126.5	133.8xd	....	1.79
Japan Growth Tst.	216.8	229.5	....	0.54
North Am Gwth Tst	112.6	119.1	....	1.04
Smaller Companies	253.6	268.4	....	2.06
South East Asia	79.0	83.6	....	1.45
Special Sits (Acc)	322.9	341.7	....	1.22

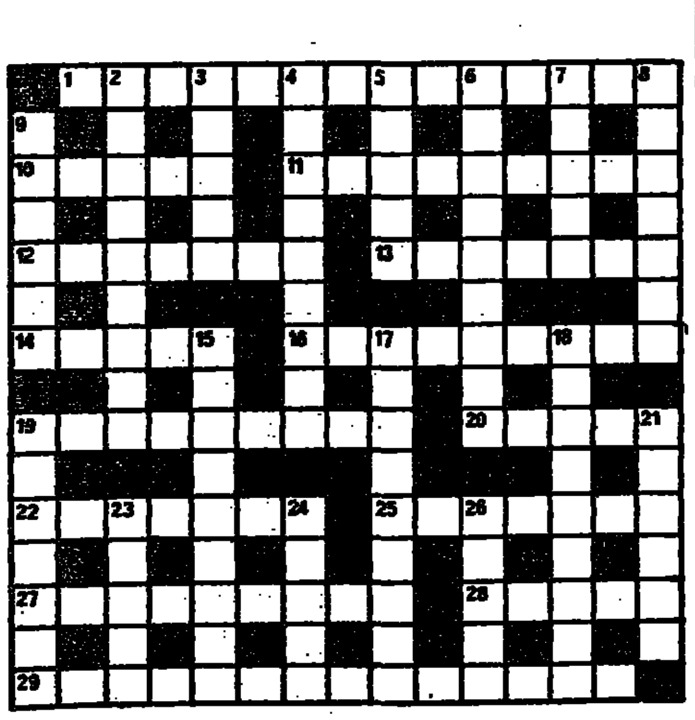
Crown Unit Trust Services Ltd
Crown House, Woking GU21 1XW 04862 24933

	Bid Price	Offer Price	+ or −	Yield Gross
Crown American Tst.	142.0	151.1xd	−0.5	0.66
Crown European Tst.	124.4	132.3	−0.1	—
Crown Growth Trust	259.1	275.6xd	+0.8	2.61

INSURANCES

FT CROSSWORD PUZZLE No. 6,254

COURTIER



ACROSS

1 Fitting in, apparently (7,3,4)
10 Enclosure just north in the district (5)
11 Some menswear is omen of changing fashion—tedious (9)
12 Photographic work of art? (5-2)
13 About two hundred spite a doubter (7)
14 Reason to keep record of integrated circuit (5)
16 Worth publishing reduced price in piece of furniture (9)
19 Explain the meaning of curious trec print (9)
20 Participate in innocent error (5)
22 Sounds like fewer alternatives for rent collectors (7)
25 Thieves show hesitation in back seat (7)
27 Preserve on breakfast menu (9)
28 Extract flavour from Qantas tea (5)
29 Stroll within the law? (14)

DOWN

2 Error of omission about this grove (9)
3 *Jack the Ripper? Rather the opposite!* (5)
4 Pressed into action daily (9)
5 Making parts for catches (5)
6 Record one recent eruption where an earthquake may be seen (9)
7 With reference to a fight (5)
8 Sugary substance the French trace round about (7)
9 Bony friend found beneath the vehicle (6)
15 A hundred at RN room allocation get the bird (9)
17 Let client produce mind power (9)
18 Sounds like an assault on a bishopric in London (9)
19 Mails in confusion in charge of a Moslem (7)
21 Register sorter for redeployment (6)
23 Sea nymph causes anger from pole to pole (5)
24 Inclined to present unbalanced view (5)
26 To surpass, do without (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

AUTHORISED UNIT TRUST & INSURANCES

Growth & Sec. Life Assce. Soc. Ltd
23 Boltro Rd, Haywards Heath, W. Sussex 0444 413307

Flexible Finance	176.55			–
Landbank Secs.	67.62			–
Landbank Secs. Acc.	235.02	229.15	..	–
G & S Super Fd.	13.1530			–

Guardian Royal Exchange
Royal Exchange, EC3 01-283 7101

Guardian Assurance				
Property Bonds	405.9	422.8	.....	–
GRE Linked Life Assurance Ltd				
Managed Initial	354.3	372.9	+4.1	–
Do. Accum	423.9	446.2	+5.4	–
Equity Initial	467.9	492.6	+4.7	–
Do. Accum.	559.8	589.3	+5.6	–
Fixed Int. Initial	241.9	254.6	+0.6	–
Do. Accum.	289.4	304.6	+0.7	–
Intnl. Initial	400.5	421.6	+5.4	–
Do. Accum.	479.2	504.4	+6.5	–
North American Initial	149.2	157.0	–2.1	–
Do. Accum	162.4	170.9	–2.3	–
Pacific Initial	219.2	230.7	–1.6	–
Do Accum	236.4	248.8	–1.7	–
European Initial	99.7	104.9	+0.8	–
Do. Accum	100.3	105.6	+0.9	–
Property Initial	140.0	147.4	...	–
Do Accum	167.4	176.2	...	–
Index-Linked Gilt Init.	99.8	105.2	+0.4	–
Do. Accum.	108.7	114.5	+0.4	–
Deposit Initial	140.0	147.4	.....	–
Deposit Accum	167.5	176.3	.....	–
GRE Pensions Management Ltd				
Pens. Managed Initial	391.3	411.9	+3.8	–
Pens. Managed Acc.	457.6	481.7	+4.5	–
Pens. Equity Initial	547.0	576.0	+5.1	–
Pens. Equity Acc.	639.9	673.6	+6.1	–
Pens. Fxd.Int.Initial	274.4	288.9	+1.0	–
Pens. Fixed Int. Acc.	320.9	337.8	+1.1	–
Pens. Int'l Initial	380.8	400.9	+0.3	–
Pens. Int'l Acc.	445.3	468.8	+0.4	–
Pens. Prp. Initial	160.9	169.4	...	–
Pens. Prp. Acc.	188.0	197.9	...	–
Pens. Ind-Lkd. Glt In.	116.1	122.3		–
Pens. Ind-Lkd. Gt.Ac.	126.7	133.4	+0.3	–

Liberty Life Assurance Co Ltd
Station Rd, New Barnet 01-440 8210

Sel Sec A	35.1	37.0	+2.0	–
Managed	28.3	29.8	+0.4	–
Equity	22.8	24.0	+0.5	–
Blue Chip	32.2	33.8	+0.8	–
Special Sits	31.0	32.7	+0.4	–
International	38.8	40.9	–0.1	–
European Fund	10.0	10.6	–0.2	–
American	26.4	27.8	....	–
Pacific	35.6	37.5	+0.2	–
Property	25.1	26.5	+0.3	–
Fixed Yield	22.4	23.6	+0.1	–
Int Currency	18.1	19.1	+0.4	–
Deposit	18.4	19.4	+0.1	–

London A'deen & Nthn. Mtl. Assur. Ltd
129 Kingsway, London WC2B 6NF 01-404 0393

'Asset Builder'	107.2	113.9	...	–

London Indemnity & Gnl. Ins. Co Ltd
18-20 The Forbury, Reading 583511

Money Mgr Feb 1	119.9	128.7	...	–
MM Flexible Feb 1	94.8	101.6	...	–

London Life
100 Temple St, Bristol BS1 6EA 0272-279179

Assurances			
Equity	506.1	...	–
Fixed Int.	221.4	...	–
Property	241.2	...	–
Deposit	175.0	...	–
Mixed	339.8	...	–
Index Stock	123.1	...	–
International	177.3	...	–
Assurances—Series A			
Equity (A)	118.6	...	–
Fixed Interest (A)	99.4	...	–
Property (A)	107.3	...	–
Deposit (A)	104.1	...	–
Mixed (A)	112.7	...	–
Index Stock (A)	97.6	...	–
International (A)	112.1	...	–
Pensions			

INSURANCE, OVERSEAS & MONEY FUNDS

Target Life Assurance Co. Ltd.
Target House, Gatehouse Road, Aylesbury, Bucks. Aylesbury (0296) 394000

Managed	476.6	449.1	+0.9	
Property	264.7	278.2		
Fixed Int	161.0	169.5	+0.5	
UK Equity	525.9	553.6	+2.6	
Int Equity	342.0	360.1	-0.5	
Deposit	158.4	166.8		
Managed Property	240.4	253.0	+0.8	
American Eagle	117.8	124.0	+0.4	
Technology	109.9	115.7	+0.1	
Worldwide Income	180.9	190.5	+0.5	
Pacific	182.0	191.6	-1.3	—
Australian	94.5	99.5	+0.6	—
Japan	287.9	303.1	-2.2	—
Commodity	111.3	117.2	+0.5	—
Gold	139.5	146.9	+0.5	—
Financial	205.6	216.5	+1.7	—
Income	244.3	257.2	+0.6	—
Special Situations	233.6	245.9	+0.8	—
Preference	138.7	146.0	....	—
Managed Currency	96.5	101.6	...	—
European Spec. Sits.	198.4	208.9	-1.2	—
Sterling	103	—	...	—
Residential Property	99.2	104.4	...	—
Pension Funds				
Managed Pension	1299.8	1368.3	+14.0	—
Gilt Pens.	355.6	374.3	+1.8	—
Property Pens.	681.8	717.7	+3.9	—
Equity Pens.	637.2	670.8	+3.6	—
Index-L Pen	126.1	132.8	+0.5	—
Guar. Pen.	261.1	274.9	+0.1	—
Leicester Retirement	161.4	169.9	...	—

Prices quoted are for Accumulation units

Teachers' Assurance Company Ltd
12 Christchurch Rd. B'mouth BH1 3LW 0202 291111

Managed Fund	284.9	299.8	...	—
Gilt & Fixed Int Fd	134.3	141.4	...	—
Cash Fund	124.2	130.7	...	—

Transatlantic Life Assur Co Ltd
8 New Rd, Chatham, Kent Medway 812348

LACOP Units	317.46	18.58	...	—

Trident Life Assurance Co Ltd
London Road, Gloucester 0452 500500

Managed	324.0	341.2	+0.9	—

The Parchester Group
91 Wimpole Street London W1M 7DA 01-493 9090

Parchester Managed Funds

Albany (z)	119.1	125.3	+0.1	—
Cornhill (z)	108.0	114.0	+2.5	—
Irish Life (z)	113.3	119.2	+0.6	—
Royal Heritage (z)	104.2	109.7	+0.6	—
Schroder (z)	100.0	105.2		—
Skandia (z)	120.5	126.8	-0.3	—
Target (z)	123.2	129.7	+0.3	—
Trident (z)	116.4	122.7	+0.1	—
Parchester Managed Pension Funds				
Albany (z)	130.7	137.5	+0.1	—
Schroder (z)	99.5	104.7	...	—
Skandia (z)	126.9	133.5	-0.3	—
Target (z)	113.8	119.8	+1.0	—

Managed by Parchester Securities Limited

Sharp (Albert E.) & Co
12 Newhall Street, Birmingham B3 3ER 021-236 5801

Man-Clerical Med	120.5	126.9	+0.7	—
Pens. Man-Schroder	489.2	514.9	+2.7	—

Towry Law & Co
57 High St, Windsor, SL4 1LX 0753 868244

Clerical & Medical	102.8	108.3	-0.2	—
Guardian Royal Exch	98.9	104.2	-0.6	—
M&G Ass (Life)	114.7	120.5	...	—
M & G Ass (Pens)	132.5	139.1	...	—
Norwich Union Asst Mgt	53.8	56.7	...	—
Royal Life (UnitLnkAss)	105.7	111.2	-0.2	—
Scot Equitable (Life)	149.7	157.6	...	—
Scott Equitable (Pens)	102.3	107.7	...	—
Scot Mutual (Life)	154.1	162.3	...	—
Scot. Mutual (Pens)	140.2	147.6	...	—
Vanbrugh Life Ass	119.7	126.0	...	—

J. D. Ward & Co Ltd
55 Lincoln's Inn Fields, WC2A 3LX. 01-242 2263

Target Mngd Bond	189.0	199.0	...	—
Target Mngd Pension	163.4	172.6	...	—
Albany Mngd Bond	162.6	171.1	...	—
Albany Mngd Pension	206.6	217.6	...	—

Yorkshire & Lancashire Investment Mgt.
2 Parson Lane, Clitheroe, BB7 2JN 0200 28066

Growth & Income (RH)	173.7	182.9	...	—
Ultra Bond (Rev.H)	143.0	150.6	...	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

Money Market Trust Funds

Money Market Bank Accounts

NOTES

TRADITIONAL OPTIONS
3-month call rates

Industrials	p		
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk	48
BAT	35	P & O Dfd	45
BOC Grp	28	Plessey	26
BSR	11	Polly Peck	16
BTR	26	Racal Elect	15
Babcock	16	RHM	24
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons	24	Turner Newall	18
Comm Union	28	Unilever	140
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land	16
Glaxo	85	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	BOM	3½
Hanson Tst.	18	Brit Petroleum	50
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	3½
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	62
Morgan Grenfell	26		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
6Oct	6Apr	Exch. 10½pc 1987	99[illegible]	1.9	10.51	10.90
1 Nov	1 May	Funding 6½pc 85-87	99[illegible]	25.9	6.54	9.59
12Dec	12Jne	Treas. 10pc 1987	99[illegible]	18.12	10.03	10.66
14Jan	14Jly	Treas 3pc 1987	98[illegible]	8.12	3.06	7.70
3May	3Nov	Treas. 12pc 1987	101[illegible]	29.9	11.87	10.27
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	98[illegible]	22.12	7.88	9.55
10Nov	10May	Exch 10½pc '88	100[illegible]	6.10	10.48	10.29
14Dec	14Jne	Treas 9¾pc Cv '88	99[illegible]	18.12	9.82	10.34
1Jan	1Jul	Transport 3pc '78-88	94[illegible]	25.11	3.18	7.33
25 Apr	25 Oct	Treas. 9½pc '88	98[illegible]	18.9	9.63	10.37
22 Aug	22 Feb	Treas 11½pc 1989	102[illegible]xd	16.1	11.25	10.26
18 Oct	18 Apr	Treas 9½pc Cnv 1989	98[illegible]	11.9	9.65	10.32
15Nov	15May	Treas 3pc 1989	90[illegible]	9.10	3.31	7.56
14Dec	14Jun	Treas 10½pc 1989	100[illegible]	18.12	10.46	10.28
1Feb	1Aug	Exch 10pc 1989	99[illegible]	29.12	10.06	10.28
29 Mar	29 Sep	Exch 11pc 1989	101[illegible]	26.8	10.84	10.34
15 Apr	15 Oct	Treas 5pc 1986-89	91½	8.9	5.46	8.62
15 May	15 Nov	Exch 10¼pcCv '89	101[illegible]	9.10	10.07	9.46
15 Jul	15 Jan	Treas 13pc 1990‡‡	106[illegible]	9.12	12.16	10.17
12 Aug	12 Feb	Exch 11pc 1990‡‡	101[illegible]	6.1	10.79	10.22
22 Sep	22 Mar	Exch. 12½pc 1990	105[illegible]xd	18.8	11.80	10.20
8 Nov	8 May	Treas. 3pc 1990	86[illegible]	2.10	3.46	7.73
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	96[illegible]	18.12	8.58	9.60
25 Apr	25 Oct	Treas. 10pcCv 1990	99[illegible]	18.9	10.08	10.23
22 May	22 Nov	Exch 2½pc 1990	83[illegible]	16.10	2.99	7.55
10 July	10 Jan	Treas 11¾pc 1991	104[illegible]	4.12	11.22	10.23
5Oct	5Apr	Funding 5¾pc '87-91‡‡	89	1.9	6.52	9.25
13 Nov	13 May	Treas. 3pc 1991	82¾	—	3.63	7.90
12Jan	12July	Treas 10pc Cv '91	101[illegible]	8.12	9.90	9.69
25Apr	25Oct	Exch. 11pc 1991	103	18.9	10.68	10.16
22Jly	22Jan	Treas 12¾pc 1992‡‡	109[illegible]	16.12	10.59	10.12
		Five to Fifteen Years				
21Aug	21Feb	Treas 10pc 1992	99[illegible]xd	15.1	10.03	10.08
7 Nov	7 May	Treas 10½pc Cv 1992‡‡	101[illegible]	1.10	10.34	10.09
25 Feb	25 Aug	Exch. 12¼pc '92	108[illegible]xd	19.1	11.27	10.15
		[illegible]	[illegible]	[illegible]	11.87	10.19

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—	Catalyst Comm. 5p	46	—	—	—	—	—
—	Corton Beach 10p	55	—	—	—	—	27.3
—	Eglinton Oil Ir.5p	55	—	—	—	—	—
—	Do. Warrants	34	—	—	—	—	—
—	Publishing Hldgs.	19	—	—	—	—	—
—	Theme Holdings	50	—	—	—	—	—
—	Unit Group	119	—	R4.5	2.5	5.4	(8.5)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- "Tap Stock".
- Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- Interim since increased or resumed.
- Interim since reduced, passed or deferred.
- Tax-free to non-residents on application.
- Figures or report awaited.
- Not officially UK listed; dealings permitted under Rule 535(4)(a).
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Dealt in under Rule 535(3).
- Price at time of suspension.
- Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress.
- Not comparable.
- Same interim: reduced final and/or reduced earnings indicated.
- Forecast dividend; cover on earnings updated by latest interim statement.
- Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- No par value.

B.Fr. Belgian Francs. Fr. French Francs. Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	70	.....	Fin. 13% 97/02	£99½	.....
Craig & Rose £1	£34¾	...	Arnotts	340	...
Finlay Pkg. 5p	59	...	CPI Hldgs	58	...
Holt (Jos) 25p	855	...	Carroll Inds.	140	.....
IoM Stm. £1	78	.....	Dublin Gas	10	...
			Hall (R. & H.)	106	+1
IRISH			Heiton Hldgs.	32	+2
Fund 11¾% 1988	£97½	.....	Irish Ropes	172	+7
Nat. 9¾% 84/89	£93	.....	Unidare	360	...

CONSTRUCTION CONTRACTS

£20m Bristol headquarters

Scheme details are finalised and the contracts have been signed for the £20m head office development for Gateway Foodmarkets at Whitchurch in Bristol, following approval of the project by the City Council's planning committee.

To be built by the Bristol-based PEARCE BUILDING GROUP, the 250,000 sq ft development will be the largest office complex in the city and will accommodate over 1,800 staff—recruitment for the first 200 members of staff is already under way. Further staff will be recruited as the building nears completion.

Pearce contractors have begun work on the 17-acre site with the first phase of the project due for completion in May 1988. The overall construction period is expected to be 20 months.

The scheme has been designed by Pearce architects to include a three-storey central office block with linked courtyards to four, two-storey wings surrounded with extensive landscaping and car parking for up to 1,000 cars.

The central block will accommodate the main visitor reception area, staff restaurant, executive office suites and the accounting offices.

The complex will be built in brick with a tiled pitched roof, to minimise external maintenance costs and complement the environmental characteristics of the local area.

Recognising the importance of short and long-term flexibility for a large organisation like Gateway, Pearce has designed the building to ensure that all internal areas can be serviced at floor and ceiling level. A clear span floor for the first and second floors will extend across the whole width of the building to avoid restrictions in the positioning of corridors and circulation routes.

Saudi bank relocates

Al-Bank Al-Saudi Al-Fransi (Saudi French Bank) has awarded a US$19.5m (£12.9m) contract to HYUNDAI ENGINEERING & CONTRACTING CO to build a new headquarters building in Riyadh.

The move of Saudi French Bank follows a general migration of Saudi banks to the capital city of Riyadh. Riyad Bank has announced plans to move to Riyadh and Al-Bank Al-Saudi Al-Hollandi (Saudi Dutch Bank) has moved half of its headquarters operations to Riyadh.

The building will rise nine storeys and will have three basement levels, which will include below-ground parking. The building will have around 26,000 sq metres of floor space. It will be located near the Riyadh Marriott and contain a branch as well as bank offices.

While the new building goes up, Saudi French is shuffling its Riyadh operations. The bank's Riyadh regional management, main branch and administrative support will move from their present quarters on Airport Street to a new building on the same street. Refurbishment of the new building is taking place and the move should be finished by the end of 1987. Saudi French is 40 per cent owned by Bank Indosuez, and 60 per cent by Saudi investors.

★

The Northern Regional Health Authority has awarded a £12m contract to JOHN LAING CONSTRUCTION for scheme three, phase one development at South Shields Hospital. The contract is for the construction of a four-storey ward block, including a gymnasium and accident and emergency ward. A two-storey theatre block is also being constructed. The buildings will be made of reinforced concrete, and the total floor area of the main blocks will cover 18,700 sq metres. All mechanical and electrical services plus external works and drainage are included in the contract. There will also be several new single-storey buildings including a child assessment unit.

Ernest Ireland orders total £12m

More than £12m-worth of work in the west and south Wales has been won by ERNEST IRELAND CONSTRUCTION of Bath. The contracts include retail warehouse units in Bristol, a primary school in Carmarthen and an extension to another school in south Wales, offices and warehousing in Swindon and Winchester. The largest contract, valued at £3m, is for phase 3 of the Eastgate development in Bristol and comprises five retail warehouse units with a total floor area of 111,000 sq ft. The contract is being undertaken for BS Properties. Isaac Jones Construction, the south Wales regional office of Ernest Ireland Construction, has been awarded the contract to build a primary school at Carmarthen, valued at £1m, for Dyfed County Council.

Two contracts are underway at Swindon. The largest, worth £953,000, is for Multivac (UK), for whom Ernest Ireland is building a 17,000 sq ft sales and service centre. At Frankland Road, Swindon, a £900,000 project is for the design and construction of a two-storey extension for Water Research Centre Engineering.

At Crown Walk, Winchester, the company has been awarded a £557,000 contract by Bath & Bristol Estates for an office block superstructure, while in Salisbury a £470,000 contract has been received for an extension to The Red Lion, believed to be the oldest purpose-built hotel in the UK. The new wing will provide car park at ground floor level with two storeys of bedrooms and bathrooms above.

In Swansea, Isaac Jones has won a £500,000 contract from West Glamorgan County Council to build an arts and teaching block at Gowerton Senior Comprehensive School and has also started work on a £200,000 negotiated contract from Midland Bank for refurbishment and new construction at its Castle Square branch.

For West Wiltshire District Council, Ernest Ireland is building a swiming pool with changing accommodation in Melksham valued at £355,000 and in Southampton has won a £250,000 contract from Southampton City Council for alterations and refurbishment to the housing department's offices at the Civic Centre.

Tunnelling projects

A. MONK, a Davy Corporation company, has gained contracts valued at £11.5m. The tunnelling division leads the way with contracts valued at over £6m which includes the Coppermills to Stoke Newington section of the London Ring Main for Thames Water Authority valued at £4.7m. The contract involves the pipejacking of a 2.2 metre diameter concrete pipe, 3 km in length and the construction of a bolted segmental concrete shaft. Pipejacking is also involved in the £1.19m contract for the Borough of Sunderland on the Tunstall to Ryhope sewer. Stamford office has been awarded a contract valued at £2.13m by the Northamptonshire County Council for the construction of the Stanwick and Raunds bypass. The works involve construction of about 3.3 km of single carriageway, a roundabaut, new culverts and associated subway. In the north west, contracts include a soapery for Lever Bros, at Port Sunlight, value £884,000; contracts totalling £280,000 for site preparation on pier 8 and demolition and wall refurbishment both at Salford for Salford City Council, and construction of a sludge pumping station value £1.19m at Warrington for North West Water Authority.

Hong Kong port plan

Trafalgar House associate company GAMMON (HONG KONG) has been awarded a £7.6m contract for extensions to Hong Kong's Kwai Chung container port. The contract is for the berth 5 extension and involves dredging and reclamation as well as construction of a piled deck and associated civil works together with sea walls. The client is Modern Terminals. Gammon (Hong Kong) is jointly owned by Trafalgar House and Jardine Matheson.

DIARY DATES

Parliament

TODAY

Commons: Broadcastiny Bill, second reading. Opposed private business.

Lords: Teachers' Pay and Conditions Bill, third reading. Channel Tunnel Bill, second reading.

Select committees: Environment—subject: pollution of the rivers and estuaries. Witnesses: Department of the Environment officials (Room 20, 4.30 pm). Foreign Affairs — subject: British cultural diplomacy. Witness: Arts Council (Room 15, 4.30 pm). Public Accounts—subject: commercial work. Witnesses: Sir Patrick Wright and Sir Brian Hayes, DTI (Room 16, 4.45 pm).

TOMORROW

Commons: Opposition debates on the problems and needs of the disabled and on women in the community. Motion on the Social Security (Payments on Account, Overpayment and Recovery) Regulation.

Lords: Advocates Widows and Orphans Fund Order Confirmation Bil, report. Chevening Estates Bill, committee. Criminal Justice (Scotland) Bill, report. Debtors (Scotland) Bill, report. Debate on the EEC forestry policy.

Select committee: Private bill, Essex (Room 5, 10.30 am).

WEDNESDAY

Commons: Debate on a motion covering the Government's spending plans for 1987-88 to 1989-90. Motions on the Rate Support Grant (Scotland) Order and the Revaluation Rate Rebates (Scotland) Order.

Lords: Debate on the need for accurate employment statistics. Unstarred question on whether the Government is satisfied with the moral condition of the tabloid press.

Select committees: Trade and Industry—subject: motor components industry. Witness: the Rover Group (Room 15, 10.45 am). Employment — subject: skills shortages. Witnesses: UCATT, Federation of Master Builders, Building Employers Confederation, and the Chartered Institute of Building (Room 8, 4.15 pm). Public Accounts—subject: control over professional and technical staff; control over nursing manpower. Witness: Mr L. Peach, DHSS (Room 16, 4.15 pm). Social Services — subject: problems associated with AIDS. Witnesses: British Medical Association and the Royal College of Nursing (Room 21, 4.15 pm). Environment — subject: pollution of rivers and estuaries. Witnesses: Chemical Industries Association; Confederation of British Industry (Room 20, 4.30 pm). Foreign Affairs — subject: British cultural diplomacy. Witness: Sir David Orr, chairman, British Council (Room 15, 4.45 pm). Joint Committee — subject: private bill procedure. Witness: Chairman of Ways and Means (Room 4, 4.30 pm).

THURSDAY

Commons: Banking Bill, remaining stages.

Lords: Territorial Sea Bill, committee. Prevention of Terrorism (Temporary Provisions) Act 1984 (Continuance) Order 1987: motion for approval. Debate on the report of the Select Committee on Science and Technology on civil research and development.

FRIDAY

Commons: Private members' bills.

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY
BOARD MEETINGS—
Finals:

...

DIVIDEND & INTEREST PAYMENTS—
Browne and Tawse, 2.2p
Credit Foncier De France 10¼pc Gtd. Ser Ln 2011, 2012, 2013, 2014 (Reg.) 5¼pc
Korea Devpt. Bk. Fltg Rate Nts 2000 $335.42
Oil and Natural Gas Gtd Fltg Rate Nts 1997 $322.64
Sterling Inds., 0.9p
Westpac Banking Cpn. Sub Fltg Rate Nts 1997 $329.03

THURSDAY FEBRUARY 19
COMPANY MEETINGS—
Horne (Rbt.), Huntsman House, Mansion Close, Moulton Park, Northampton, 11.00
Stakis, Normandy Hotel, Inchinnan Rd., Renfrew, 3.00
Trilion, Limehouse Studios, Canary Wharf, West India Docks, E., 12.00
Valin Pollen Intnl., Savoy, Strand, W.C., 12.00

Trade fairs and exhibitions: UK

Current
Boat, Caravan and Leisure Show (021-236 3366) (until February 22) **NEC, Birmingham**

Current
International Automotive Parts and Accessories Trade Show (01-855 7777) (until February 17) **Olympia**

February 17-20
The Which Computer? Show (01-388 9871) **NEC, Birmingham**

February 22-24
London Pret Exhibition (01-385 1200); International Men's and Boys' Wear Exhibition (021-705 6707); Junior Fashion Fair International (01-636 1833) **All at Olympia**

February 25-26
Measurement and Test Exhibition — INSTRUMENTATION (0822 4671) **Harrogate**

February 27-28
Cash and Carry Fashion Fair (01-727 1929) **Kensington Town Hall**

March 3-4
USM Exhibition (01-493 0000) **Royal Kensington Hotel, W8**

March 3-5
Business Telecom Exhibition (01-868 4466) **Barbican Centre**

March 4-6
Computers in Clothing Exhibition (01-467 7728) **Harrogate**

March 7-8
British Chemists Exhibition—BRITCHEM (01-444 1777) **NEC, Birmingham**

March 8-11
British Ski Trade Exhibition—SKI-EX (0922 24661) **Harrogate**

March 11-13
Computers in Retail and Retail Technology Exhibition (01-222 9090) **NEC, Birmingham**

March 14-15
Wedding Exhibition (041 332 6776) **G-Mex Centre, Manchester**

March 15-17
British Footwear Fair (01-739 2071) **NEC, Birmingham**

Overseas

February 21-25
International Fair for Shopfitting, Advertising and Selling —EUROSHOP (01-493 3893) **Dusseldorf**

February 21-25
Spring Fair (01-734 0543) **Frankfurt**

February 25-March 3
International Fairs: Food; Materials Handling and Warehousing; Packaging and Printing (021-455 9600) **Brno**

March 8-11
Winter Sports Equipment Exhibition (01-439 3964) **Grenoble**

March 9-14
International Innovation Exhibition (01-439 3964) **Paris**

March 15-21
International Spring Fair (01-248 7018) **Leipzig**

March 25-29
International Spring Trade Fair (01-977 4551) **Vienna**

Business and Management Conferences

February 17
Longman Seminars: Will drafting and inheritance tax (01-242 4111) **Barbican Centre, EC2**

February 17
Information for Energy Group; Oil price information (01-636 1004) **61, New Cavendish Street, W1**

February 17
Financial Times: The London Motor Conference—Manufacturing, Components and the Aftermarket (01-621 1355) **Marriott Hotel, W1**

February 17-18
Crown Eagle Communications: UK Government contracting (01-242 4111) **Selfridge Hotel, W1**

February 17-19
IRRG: The London insurance market—the way forward (01-236 2175) **The Royal Garden Hotel, W8**

February 18-19
Fiancial Times: Cable television and satellite broadcasting (01-621 1355) **Hotel Inter-Continental, W1**

February 18
CBI: Energy for business (Cardiff 32536) **Parkway Hotel, Cwmbran**

February 19
CBI: Look Nordic (01-379 7400) **Centre Point, WC1**

February 23
Longman Seminars: Process industries and the environment: risk and regulations (01-242 4111). **Glaziers' Hall, SE1**

February 24-26
Management Training Consultants: Successful managers in action (Leicester 27062) **Leicester**

February 24-26
Frost and Sullivan: Computer performance measurement applied to complex and shared disk environments (01-730 3438) **Carlton Tower, W1**

February 25-26
McAvoy Wreford Bayley: Eighth Annual Corporate Communications and Advertising Conference (01-730 4500) **Park Lane Hotel, W1**

February 26
Tolley Publishing Company: Acquiring a private company (01-686 9141) **Marriott Hotel, W1**

March 4
The Royal Institute of International Affairs: Korea and the UK: a broadening relationship (01-930 2233) **Chatham House, SW1**

March 4
CBI: Don't forget Aunt Agatha —keep your small shareholders informed (01-379 7400) **Centre Point, WC1**

March 6
Longman Seminars: Pension Fund Surpluses (01-242 4111) **London Press Centre**

March 11
City Dialogue: Financial engineering in property (01-937 1548) **Savoy Hotel, WC2**

March 16
Campaign / Admap seminars: Monitoring advertising performance—the annual review of the best practice (01-379 6576) **Cavendish Conference Centre, W1**

March 19-20
FT Conferences: Pensions—The time for action (01-621 1355) **Hotel Inter-Continental, W1**

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	Feb. 13	Price Sch
2,660	1,990	Credit'nat'lt pp	2,010
3,850	2,950	Goesser	2,970
16,000	12,700	Interunfall	13,150
21,750	9,120	Jungbunzlauer	9,280
2,475	1,950	Laenderbank	1,990
785	560	Perlmooser	658
211	140	Steyr Daimler	142
12,60	860	Veitscher Mag	860

BELGIUM/LUXEMBOURG

1986/87 High	Low	Feb. 13	Price Frs.
3,500	2,290	B.B.L.	2,900
16,550	9,600	Banq. Gen. Lux	15,550
17,000	9,400	Banq. Int.A.Lux.	15,200
14,600	8,250	Bekaert	9,600
4,660	2,640	Ciment CBR	4,510
195	120	Cockerill	138
3,240	1,662	Delhaize	2,750
5,110	3,520	EBES	5,170
2,700	1,680	Fabrique Nat	1,860
966	368	GB Innc BM	970
4,525	2,695	GBL (Brux)	3,500
6,800	4,310	Generale Bank	6,350
6,850	4,750	Gevaert	6,100
8,750	5,700	Hoboken	7,860
4,100	2,880	Intercom	4,850
4,450	2,430	Kredietbank	4,250
11,650	9,900	Pan Holding	10,925
9,980	6,050	Petrofina	9,550
29,488	17,200	Royale Belge	24,300
3,500	2,120	Soc. Gen. Belge	3,165
13,400	7,710	Sofina	12,200
9,000	6,050	Solvay	8,900
585	185	Stanwick Intl	290
6,770	4,675	Tractebel	6,460
10,300	6,500	UCB	9,790
6,200	3,705	Wagons Lits	5,670

DENMARK

1986/87 High	Low	Feb. 13	Price Knr. %
970	510	Baltica Skand	870
548	255	Cop Handelsb'nk	765
470	318	D. Sukkerfab	357
381	359	Danske Bank	331
298	160	East Asiatic	205
1,240	870	Forenede Brygg.	910
665	289	GNT Hld.	350
835	505	I.S.S.B.	830
645	450	Jyske Bank	500
281	218	Novo Inds*	257
339	229	Privatbanken	273
1,060	685	Sophus Berend	800
331	119	Superfos	167

FINLAND

1986/7 High	Low	Feb. 13	Price Mks
229	100	Amer	187
55	43.75	KOP	45
278	175	Kone	177
171	87.2	Finnish Sugar	97.5
169	63.6	Nokia	146.5
235	57.5	Pohjola "B"	69
25.5	14	Rauma-Repola	20.9
265	94	Stockmann "B"	160.5
39	25.4	UBF "C"	30.9
240	120	Wartsila (S11)	176

NORWAY

1986/7 High	Low	Feb. 13	Price Kroner
204	142	Bergens Bank	188
285	245.5	Bergesen B	260
229	151.5	Christiania Bank	202
191	146	Den Norske Cred	176.5
121	86	Elkem	87
197.5	131	Kosmos	154.5
195	120	Kvaerner	176
156.2	88	Norcem	122
248	176	Norsk Data	213
169.5	122	Norsk Hydro	145
477.5	324	Orkla-Borregaard	376
319	255	Storebrand	304

NETHERLANDS

1986/7 High	Low	Feb. 13	Price Fls
68	44.6	ACF Holding	59.5
123.2	78	AEGON	81.9
118	69.5	Ahold	102
181.9	128.4	AKZO	131.2
638	503.5	ABN	513
93.8	64.7	AMEV	65
117	83.5	AMRO	84.5
260	62.8	Bredero Cert	75
61.3	33.7	Buehrmann-Tet.	51.2
206.6	156.8	Dordtsche Pet'm	198.5
261	154	Elsevier-NDU	238
98.6	51.3	Fokker	64.1
60.8	38.8	Gist Brocades	40
199.5	150.0	Heineken	156.6
118	29.8	Hoogovens	33.8
75	52.2	Hunter Doug N/V	55.5
35	16.7	IHC Caland	16.7
66.3	59.5	Int Mueller	61.8
65.8	35.1	KLM	41.1
171.5	118.7	KNP	148
89.5	71.5	Nat Ned Cert	72.6
255.5	178	Ned Mid Bank	180
219.9	157	Nedlloyd	162.2
553.5	393	Oce Grinten	394
39.5	30.4	Ommeren (Van)	35.4
92.5	60.0	Pakhoed	68.9
65.7	43	Philips	45.2
97.6	82.9	Robeco	96.9
142.1	132.2	Rodamco	140.3
87.8	72.2	Rolinco	84.5
61.1	46.6	Rorento	50.3
222.1	164.8	Royal Dutch	215.7
625	347.7	Unilever	502.5
32.3	23	VMF Stork	24.9
356.3	270.5	VNU	306
84.8	59.7	Wessanen	75.4
129.5	105.5	Wolters Samson	106.5

ITALY

1986/7 High	Low	Feb. 13	Price Lire
54,995	19,980	Banco Com'le	24,400
868	575	Bastogi-IRBS	685
16,400	6,160	C.I.R.	6,190
4,590	2,990	Credito Italiano	3,150
16,500	6,531	Fiat	13,100
173,030	75,150	Generali Assicur.	131,800
81,505	48,200	Italcementi	72,100
1,430	920	La Rinascente	1,104
4,535	2,705	Montedison	2,825
18,890	8,710	Olivetti	11,950
8,970	5,085	Pirelli Co	5,990
6,510	3,370	Pirelli Spa	5,000
6,885	4,480	Saipem	4,500
7,650	4,555	Snia BPD	4,750
64,500	24,250	Toro Assic	30,370

AUSTRALIA

1986/7 High	Low	Feb. 13	Price Aust. $
4.9	2.55	AOI Intl	3.90
16.6	10.3	Adelaide Steams	13.8
4.45	2.88	Amcor	4.38
6.5	4.4	ANZ Group	5.3
3.22	2.05	Ampol Pet	2.9
3.75	2.0	Ariadne	3.50
2.93	1.15	Ashton	2.86
3.6	2.1	Aust. Guarantee	3.56
3.70	2.45	Aust. Nat. Inds	3.3
11.1	5.9	Bell Group	10.5
5.79	3.70	Bell Res	4.9
3.75	1.05	Bond Corp Hldgs	2.9
4.8	2.8	Boral	4.7
3.53	1.9	Bougainville	3.22
8.6	4.3	Brambles Inds	8.6
1.89	0.59	Bridge Oil	0.90
10.1	6.2	BHP	10.1
10.5	6.3	Burns Philip	10.8
8.30	5.48	CRA	7.12
4.3	2.60	CSR	3.92
6.6	2.7	Chase Corp	4.3
1.24	0.63	Claremont Pet	0.85
6.4	4.1	Coles Myer	6.3
2.85	1.80	Comalco "A"	2.85
0.35	0.10	Consolidated Pet	0.35
3.7	1.7	Costain Aust	3.7
5.24	2.0	Elders IXL	5.24
1.9	1.41	Energ Res	1.75
2.85	2.16	Gen. Prop. Trust	2.75
4.7	3.0	Hardie (James)	4.22
5.46	1.55	Hartogen Energy	3.3
17.1	4.85	Herald W'yTimes	17.1
3.5	2.12	ICI Aust	3.3
9.0	4.8	Industrial Equity	5.24
0.46	0.18	Jimberlana F.P.	0.39
1.3	0.50	Kia Ora Gold	1.25
8.4	4.9	Kidston Gold	7.3
10.9	5.74	Lend Lease	10.8
3.12	1.53	MIM	2.3
4.6	2.68	Mayne Nickless	4.5
6.6	4.0	Nat. Aust. Bank	5.52
20.4	4.51	News	20.1
3.86	2.4	Nicholas Kiwi	3.80
3.1	0.65	Noranda Pacific	3.05
2.85	1.70	North Bkn Hill	2.4
1.98	0.55	Oakbridge	0.53
4.7	2.27	Pacific Dunlop	4.7
3.62	1.7	Pancontinental	3.58
3.3	2.46	Pioneer Conc	3.35
3.56	2.00	Placer Pacific	2.35
7	2.02	Poseidon	6.9
1.87	1.34	Queensland	1.40
5.4	3.82	Reckitt&Colman	—
5.56	3.88	Santos	4.20
5.3	3.95	Smith (Howard)	4.9
4.20	2.18	TNT	2.15
6.7	5.2	Tooth	6.02
3.25	1.85	Vamgas	3.0
6.38	2.82	Western Mining	6.0
6.28	4.4	Westpac Bank	4.75
1.70	0.75	Woodside Petrol	1.65
4.10	2.65	Woolworths	65
4.75	3.35	Wormald Intl	4.36

GERMANY

1986/7 High	Low	Feb. 13	Price Dm
360	265	AEG	301.9
2,875	1,190	Allianz Vers	1,770
331.8	239	BASF	253.3
350	262.5	Bayer	290.5
588	438	Bayer-Hypo	454
675	426	Bayer-Verein	431.5
593	435	BHF-Bank	454.8
645	473	BMW	498.1
348	232.5	Brown Boveri	285
377.5	267.5	Commerzbank	274
3?7.2	203	Cont'l Gummi	289
1,549.5	952	Daimler-Benz	968
534	357	Degussa	440
240	168	D'sche Babcock	251
920	683.5	Deutsche Bank	697
506	338	Dresdner Bank	363.7
343	267	Feld-Muehle	276
504	380	Henkel	481
1,300	710	Hochtief	925
327	232	Hoechst	249.1
201	88.5	Hoesch Werke	101.9
660	470	Holzmann (P)	500
262.5	168	Horten	231
660	426	Hussel	577
520	318	Karstadt	470
564	350	Kaufhof	487
393	148	KHD	160.5
125	53	Kloeckner	57
850	579	Linde	610
311.8	155	Lufthansa	160
247	140	MAN	153.6
311.8	142.1	Mannesmann	147.5
1,374	790	Mercedes Hld	811
430	250	Metallgesell	259
4,350	1,135	Muench Rueck	1,830
747	648	Nixdorf	706
1,420	820	Porsche	825
297	167	Preussag	182
275	186.5	Rhein West Elect	232.5
455	273	Rosenthal	278.3
691	514	Schering	657.8
826.5	590.8	Siemens	658.7
198	107.7	Thyssen	116
417	239	Varta	364
346	235.5	Veba	273
202	139.5	V.E.W	154.5
550	392	Verein-West	433
584	312	Volkswagen	348.5

SWITZERLAND

1986/7 High	Low	Feb. 13	Price Frs.
9,450	4,460	Adia Intl	9,450
755	480	Alusuisse	520
4,850	3,200	Bank Leu	3,675
2,285	1,540	Brown Boveri	1,620
4,550	2,775	Ciba Geigy	3,175
3,452	2,050	do. (Part Certs)	2,190
3,910	3,100	Credit Suisse	3,555
3,890	2,925	Elektrowatt	3,595
2,050	1,125	Fischer (Geo.)	1,840
141,000	94,500	Hoff-Roche PtCts	135,000
14,000	9,400	Hoff-Roche 1/10	12,475
9,125	7,100	Jacobs Suchard	8,100
4,400	3,100	Jelmoli	4,100
2,355	1,600	Landis & Gyr	1,600
9,950	7,375	Nestle	9,050
2,040	1,140	Oer-Buehrle	1,210
2,345	2,220	Pargesa Hldgs	2,190
498	378	Pirelli	438
13,000	9,900	Sandoz (Br)	10,900
2,030	1,480	Sandoz (PtCts)	1,690
900	620	Schindler (PtCts)	680
1,980	1,300	Sika	1,750
9,000	5,900	Surveillance A	8,300
2,220	1,060	Swissair	1,140
625.5	489	Swiss Bank	511
19,700	15,200	Swiss Reinsce	16,750
2,788	2,340	Swiss Volksbk	2,440
6,120	4,850	Union Bank	5,650
7,600	4,620	Winterthur	6,575
8,850	5,750	Zurich Ins	7,700

FRANCE

1986/7 High	Low	Feb. 13	Price Frs.
1,611	1,475	Emprunt 4½% 1973	1,553
9,550	7,190	Emprunt 7% 1973	7,760
693	298	Accor	540
845	608	Air Liquide	690
775	508	BIC	725
2,700	1,610	Bongrain	2,345
1,467	909	Bouygues	1,210
4,750	2,730	BSN Gervais	4,670
2,558	1,368	CIT Alcatel	2,250
3,850	2,812	Carrefour	3,520
746	458	Club Mediter'n	672
1,385	872	Cie Bancaire	1,058
468	347.5	Cofimeg	407
2,585	1,721	Damart	2,520
500	215	Darty	477
2,330	1,050	Dumez S.A.	2,100
1,688	977	Eaux (Cie Gen)	1,418
373	196	Elf-Aquitaine	355
3,800	2,000	Essilor	3,500
1,260	714	Gen. Occidentale	1,255
115.5	51.1	Imetal	94.3
1,613	745	Lafarge Coppee	1,415
4,030	2,805	L'Oreal	3,864
5,770	2,640	Legrand	5,470
350	168	Maisons Phenix	176
2,775	1,480	Matra S.A.	2,295
3,565	1,725	Michelin B	2,980
6,690	1,435	Midi (Cie)	1,560
2,680	1,735	Moet Hennessy	2,265
116	64.7	Moulinex	97
241	155.1	Nord Est	204.5
1,265	807	Pernod Ricard	1,030
845	481	Perrier	774
481	298	Petroles Fra	471
1,328	512	Peugeot S.A.	1,260
738	417	Printemps (Au)	648
1,385	421	Radiotech	1,380
3,600	1,805	Redoute	2,860
1,799	1,105	Roussel-Uclaf	1,690
587	390	Sefimeg	474
1,560	1,100	Skis Rossignol	1,420
3,865	2,640	Telemec Elect	3,300
1,764	822	Thomson (CSF)	1,500
643	348	Valeo	518

SWEDEN

1986/7 High	Low	Feb. 13	Price Kroner
230	142	AGA	158
293	246	Alfa-Laval B	284
385	205	ASEA (Free)	325
580	370	Astra (Free)	540
252	140	Atlas Copco	149
230	136	Beijer A (Free)	156
310	153	Cardo (Free)	160
296	159	Cellulosa	264
344	194	Electrolux B	286
299	189	Ericsson B	217
165	113	Esselte	141
320	178	Mo och Domsjo	240
262	167	Pharmacia	213
890	495	Saab Scania Free	660
936	136	Sandvik	140
615	108	Skandia	126
141	104	Skan Enskilda	113
389	286	SKF	345
345	157	Stora Kopparbrg	292
475	140	Sven Handlesbnk	405
475	280	Swedish Match	420
433	261	Volvo B (Free)	295

HONG KONG

1986/7 High	Low	Feb. 13	Price H.K.$
241	17.4	Bank East Asia	23.7
6.4	5.15	Cathay Pacific	6.4
42	17.9	Cheung Kong	42.0
21.8	14.8	China Light	21.4
0.97	0.53	Evergo	0.97
45.5	32.25	Hang Seng Bank	43.75
5.25	1.65	Henderson Land	5.10
23.5	20.4	HK China Gas	23.1
13.5	8.5	HK Electric	13.5
7.9	5.2	HK Land	7.75
10.5	6.25	HK Shanghai Bk	10.4
15.5	9.3	HK Telephone	14.2
52.0	24	Hutchison Wpa	52.0
48.25	22.9	Ind. Equity Pac	22.3
24.7	21	Jardine Math	24.7
10.6	5.05	New World Dev	10.3
21.4	10.6	SHK Props	21.3
1.15	0.62	Shell Elect	1.15
20.5	9.9	Swire Pac A	21.3
14.3	5	TV—B	13.5
9.55	5.2	Wharf Hldgs	9.4
9.8	5.15	Winsor Inds	9.4
3.87	2.07	World Int. Hldgs	3.82

SINGAPORE

1986/7 High	Low	Feb. 13	Price $
1.78	0.66	Boustead Hldgs	1.78
4.02	2.17	Cold Storage	3.70
10.6	4.4	DBS	10.60
7.25	3.3	Genting	7.70
3.76	1.64	Haw Par. Bros	3.70
3.26	1.74	Hong Leong Fin	3.00
3.15	1.02	Inchcape Bhd	3.14
3.04	0.4	Keppel Corp	2.80
7.15	3.04	Malay Banking	6.95
2.12	0.98	Malay Utd Ind	2.12
0.72	0.30	Multi Purpose	0.72
10.2	5.85	OCBC	10.00
3.88	2.12	OUB	3.46
1.78	0.80	Public Bank	1.55
2.77	0.82	Sime Darby	2.77
10.5	5.65	Singapore Air	10.40
8.85	5.5	Singapore Press	8.35
4.42	1.86	Straits Trdg	4.18
3.28	1.91	Tat Lee Bk	3.00
4.86	2.22	UOB	4.38

SOUTH AFRICA

1986/7 High	Low	Feb. 13	Price Rand
3.9	1.8	Abercom	3.9
16.5	8.90	AE&CI	16
100	53	Allied Tech	95
60.60	28.75	Anglo Am Coal	40.5
75	37	Anglo Am. Corp	69
380	206	Anglo Am. Gold	340
24.75	16.25	Barclays Bank	18.5
21.9	16.55	Barlow Rand	19.75
115	62	Buffels	79
3.25	1.85	CNA Gallo	3.25
7	3.8	Currie Finance	6.8
42.2	16.7	De Beers	41
79.50	49.25	Driefontein	74.5
52.50	29.25	F.S.Cons	52.5
67.5	32	Gold Fields S.A.	67.5
16.5	4.75	Highveld Steel	5.4
18	6.2	Malcor	17
9.5	5.40	Nedbank	8.15
20	11.4	OK Bazaars	13.25
95	45	Rembrandt	90
56.75	26	Rust Plat	52
20.0	13	Safren	20
11.5	9.0	Sage Hldgs	11.25
16.6	8.2	SA Brews	16.6
35	24	Smith (CG)	35
9.8	7.0	Tongaat Huletts	9.8

JAPAN

1986/7 High	Low	Feb. 13	Price Yen
2,390	1,150	Ajinomoto	2,390
1,420	746	All Nippon Air	1,420
2,170	1,640	Alps Electric	1,780
919	735	Asahi Chem	889
1,490	890	Asahi Glass	1,320
1,490	891	Bank Tokyo	1,360
781	602	Bridgestone	672
850	527	Brother Inds	568
1,200	915	Canon	915
1,840	1,180	Casio Comp	1,260
1,670	921	Chugai Pharm	1,510
1,760	715	Daiei	1,230
2,740	1,460	Dai-Ichi Kan. Bk.	2,680
656	300	Dai Nippon Ink	610
2,000	1,180	Dai Nippon Ptg	1,790
1,890	841	Daiwa House	1,740
2,520	734	Daiwa Sec	2,520
2,280	1,330	Eisai	2,150
7,760	5,040	Fanuc	5,200
2,770	1,460	Fuji Bank	2,500
3,890	1,660	Fuji Film	3,450
2,070	888	Fujisawa	1,700
1,240	825	Fujitsu	940
610	324	Furukawa Elect	498
2,660	1,200	Green Cross	2,410
1,430	794	Heiwa Real Est	1,350
1,180	760	Hitachi	1,010
2,350	1,150	Hitachi Credit	1,900
1,450	989	Honda	1,330
3,350	1,000	Indl. Bk. Japan	3,300
630	150	Ishikawajima Hr.	470
410	310	Isuzu Motor	321
942	413	Itoh (C)	780
4,860	2,950	Ito. Yokado	3,500
13,700	8,600	JAL	13,600
1,600	963	Jusco	1,220
1,570	463	Kajima	1,460
1,800	986	Kao Corp	1,600
279	134	Kawasaki Steel	230
1,770	737	Kirin	1,700
237	152	Kobe Steel	245
561	450	Komatsu	539
808	585	Konishiroku	613
480	339	Kubota	452
1,290	750	Kumagai	1,120
4,960	2,670	Kyocera	4,150
590	311	Marubeni	452
2,950	1,540	Marui	2,560
645	355	Mazda Motor	350
914	535	Meiji Seika	846
2,320	1,150	MEI	1,820
2,690	1,430	M'bishi Bank	2,500
909	506	M'bishi Chem	773
1,490	589	M'bishi Corp	1,050
600	328	M'bishi Elect	495
2,800	1,079	M'bishi Estate	2,510
546	365	MHI	525
1,760	951	Mitsui Bank	1,680
809	405	Mitsui	590
2,180	969	Mitsui Estate	1,990
469	209	Mitsui Toatsu	456
1,400	590	Mitsukoshi	1,100
1,120	799	NGK Insulators	827
2,180	675	Nikko Sec	2,700
1,800	1,200	Nippon Denso	1,450
2,440	1,160	Nippon Elect	1,980
1,420	560	Nippon Express	1,310
2,220	1,230	Nippon Gakki	1,230
1,200	752	Nippon Kogaku	752
336	128	Nippon Kokan	265
1,450	791	Nippon Oil	1,250
614	440	Nippon Seiko	453
1,300	758	Nippon Shimpan	1,140
285	154	Nippon Steel	285
593	338	Nippon Suisan	480
606	293	Nippon Yusen	530
690	525	Nissan Motor	570
957	634	Nisshin Flour	861
3,820	1,010	Nomura	3,820
1,350	970	Olympus	1,100
640	311	Onoda Cement	611
1,410	910	Orient Finance	1,070
4,760	2,560	Orient Leasing	3,480
2,750	1,650	Pioneer	2,140
1,130	755	Ricoh	905
1,760	1,070	Sankyo	1,600
2,440	1,820	Sanwa Bank	2,300
460	357	Sanyo Elect	368
1,440	632	Sapporo	1,280
1,760	800	Sekisui House	1,630
10,350	5,050	Seven-Eleven	7,740
1,010	811	Sharp	999
904	350	Shimizu Constn.	880
1,740	760	Shionogi	1,690
2,270	1,310	Shiseido	1,710
464	207	Showa Denko	460
4,150	2,810	Sony	3,080
3,360	1,570	S'tomo Bank	3,160
1,011	236	S'tomo Chem	601
1,220	725	S'tomo Corp	969
1,930	840	S'tomo Elect	1,680
205	137	S'tomo Metal	193
1,030	508	Taisei Corp	915
1,820	496	Taisho Marine	1,750
1,200	665	Taiyo Kobe Bank	1,100
2,690	967	Takeda	2,630
4,480	3,050	TDK	3,080
800	457	Teijin	690
2,080	1,110	Toa Nenryo	1,620
1,610	760	Tokai Bank	1,590
2,180	820	Tokio Marine	2,050
8,470	2,690	Tokyo Elect Pwr	7,810
1,240	277	Tokyo Gas	1,060
1,500	565	Tokyu Corp	1,390
1,790	974	Toppan Print	1,570
730	485	Toray	730
843	357	Toshiba Elect	637
2,740	1,490	Toyo Seikan	1,970
2,300	1,130	Toyota Motor	1,780
340	200	UBE Inds	298
3,260	1,490	Victor	2,340
775	603	Yamaha	620
2,060	680	Yamaichi Sec	1,890
4,200	2,890	Y'manouchiPhm	3,650
1,900	777	Yamazaki	1,780
1,140	496	Yasuda Fire	1,060

SPAIN

1986/7 High	Low	Feb. 13	Price Pts %
1,550	415	Bco Bilbao	1,458
1,130	347	Bco Central	1,060
650	207	Bco Exterior	510
630	207	Bco Hispano	570
1,860	439	Bco Popular	1,600
1,175	420	Bco Santander	1,045
1,940	595	Bco Vizcaya	1,740
910	413	Banesto	772
620	155	Dragados	575
142	81.7	Hidrola	81.7
201	101.5	Iberduero	132.5
585	172	Petroleos	503
226.5	126.5	Telefonica	173.7

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO
Closing prices February 13

MONTREAL
Closing prices February 13

OVER-THE-COUNTER
Nasdaq national market, closing prices, February 13

Continued from Page 33

Indices

NEW YORK

DOW JONES	Feb. 13	Feb. 12	Feb. 11	Feb. 10	Feb. 9	1986/87 High	1986/87 Low	Since Comp High	Since Comp Low
◆Industrials	2183.35	2165.78	2171.95	2158.04	2176.74	2201.49 6/2/87	1502.29 22/1/86	2201.49 5/2/87	41.2 2/7/32
Home Bnds.	95.15	95.21	95.12	96.35	95.61	95.61 9/2/87	83.73 14/1/86	—	—
Transport	922.36	910.85	915.21	907.62	915.82	924.18 6/2/87	686.97 (9/1/86)	924.18 6/2/87	12.32 8/7/32
Utilities	220.75	219.14	221.38	221.50	223.40	227.83 22/1/87	169.47 22/1/86	227.83 22/1/87	10.5 8/4/32

◆Day's High 2201.35 (2203.18) Low 2148.76 (2146.09)

STANDARD AND POOR'S	Feb. 13	Feb. 12	Feb. 11	Feb. 10	Feb. 9	1986/87 High	1986/87 Low	Since Comp High	Since Comp Low
Composite‡	279.70	278.04	277.54	275.07	278.16	281.16 5/2/87	203.49 22/1/86	281.16 5/2/87	4.40 1/6/32
Industrials	317.40	314.94	313.99	310.98	314.30	317.68 5/2/87	224.48 22/1/86	317.68 5/2/87	3.62 21/6/32
Financials	29.93	29.74	29.66	29.42	29.85	31.15 (14/5)	25.79 22/1/86	31.15 14/5/86	8.64 1/10/74
N.Y.S.E. COMPOSITE	159.56	157.58	158.47	157.18	158.83	159.88 5/2/87	117.75 22/1/86	159.88 5/2/87	4.46 28/4/42
AMEX. MKT. VALUE	316.25	314.43	315.44	313.64	316.66	316.73 6/2/87	246.60 (4/2/86)	316.73 6/2/87	29.16 9/12/74
NASDAQ OTC COMP.	413.48	409.16	408.85	403.50	405.78	412.46 (15/2/87)	323.01 (9/1/86)	412.46 15/2/87)	54.8 5/10/74

DIVIDEND YIELDS	Feb. 6	Jan. 30	Jan. 23	Jan. 16	year ago (approx)
Dow Industrial	3.07	3.11	3.19	3.23	3.95
	Jan. 28	Jan. 21	Jan. 14	Jan. 7	
S and P Industrial	2.68	2.75	2.81	2.89	3.44
S and P Ind P/E ratio	19.87	19.34	18.93	18.35	14.68

TRADING ACTIVITY

Millions Volume †	Feb. 13	Feb. 12	Feb. 11
New York	184.38	200.36	172.82
Amex	15.08	14.17	14.59
O.T.C.	—	(u)	148.23

New York	Feb. 13	Feb. 12	Feb. 11
Issues Traded	1,951	1,958	1,959
Rises	1,080	707	992
Falls	501	851	554
Unchanged	370	394	413
New Highs	—	(u)	77
New Lows	—	(u)	4

CANADA

TORONTO	Feb. 13	Feb. 12	Feb. 11	Feb. 10	Feb. 9	1986/87 High	1986/87 Low
Metals & Minerals	—	(u)	2339.8	2319.0	2349.0	2442.8 (21/5)	1617.4 (5/8)
Composite	3525.4	3,502.7	3485.7	3485.7	3511.9	3525.2(6/2/87)	2754.0(17/2/86)
MONTREAL Portfolio	1796.24	1,783.73	1771.78	1755.3	1783.73	1798.08(6/2/87)	1598.6 22/1/86

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Niag. Mohawk	6,946,500	17¼xd	− ⅞
Texaco	6,239,800	35½	−3
ATT	2,303,200	23⅝	—
Pennzoil	1,936,600	81½	+10⅛
Gen. Elec.	1,725,000	103½	+5⅞
Exxon	1,672,000	81	+ ⅜
IBM	1,408,900	134½	+1⅞
Owens-Ill.	1,386,800	59⅝xd	+ ⅛
Hewlett-Pack	1,328,400	56¼	+2⅜
Himont Inc.	1,316,300	33¾	+2⅛

	Feb. 13	Feb. 12	Feb. 11	Feb. 10	1986/87 High	1986/87 Low
AUSTRALIA All Ord. (1/1/80)	1576.0	1574.8	1558.9	1553.7	1576.8(13/2/87)	1010.8 (2/1/86)
Metals & Mnls. (1/1/80)	782.9	778.2	775.0	774.7	788.8 (20/1/87)	481.1(20/1/86)
AUSTRIA Creditbk Aktien(30/12/84)	208.87	200.57	201.50	201.87	268.64 (23/4)	200.57(12/2/87)
BELGIUM Brussels SE (1/1/84)	4113.39	4052.88	4040.88	4025.25	4151.69 (9/12)	2766.91(15/1/8)
DENMARK Copenhagen SE(3/1/83)	205.68	208.31	210.25	209.18	256.70 (18/4)	188.28 (11/11)
FINLAND Unitas Genl. (1975)	443.5	443.9	444.8	445.4	482.1 (15/1/87)	258.5 (2/1/86)
FRANCE CAC General (31/12/82)	419.2	417.20	414.8	415.5	425.7 (28/1/87)	287.8 (2/1/86)
Ind Tendance (31/12/86)	106.1	105.90	105.3	105.2	108.4 (27/1/87)	97.8 (2/1/87)
GERMANY FAZ Aktien (31/12/58)	583.82	582.67	576.65	576.83	753.88 (17/4)	558.65(5/2/87)
Commerzbank (1/12/53)	1761.1	1755.48	1740.2	1745.2	2278.8 (17/4)	1677.8(5/2/87)
HONG KONG Hang Seng Bank(31/7/64)	2740.49	2754.72	2750.47	2694.85	2754.72(12/2/87)	1559.94 (19.3)
ITALY Banca Comm. Ital.(1972)	682.40	689.78	682.76	692.98	908.28 (20/5)	454.67(24/1/86)
JAPAN** Nikkei (16/5/49)	19528.87	19874.89	(c)	19814.0	20072.1(2/2/87)	12881.0(21/1/86)
Tokyo SE New (4/1/68)	1712.52	1748.44	(c)	1755.75	1782.07(2/2/87)	1025.85(21/1/86)
NETHERLANDS ANP.CBS General (1970)	261.2	272.60	258.8	258.8	301.8 (5.8)	246.4 (5/5)
ANP.CBS Indust (1970)	246.1	247.80	244.4	245.0	305.9 (19/6)	234.9 (5/5)
NORWAY Oslo SE (4/1/83)	372.7	372.48	372.38	372.55	402.91(16/1/86)	331.61 (4/8)
SINGAPORE Straits Times (30,12/66)	1016.52	1012.98	993.11	985.72	1016.52(13/2/87)	563.34 (28/4)
SOUTH AFRICA JSE Gold (28/9/78)	—	1931.0	1922.00	1905.8	2121.0(15/1/87)	1109.7 (21/4)
JSE Indust (28/9/78)	—	1542.0	1538.00	1528.0	1542.0(13/2/87)	1018.3 (2/1/86)
SPAIN Madrid SE (30/12/85)	229.85	226.81	250.88	236.38	251.45 (4/2/87)	100.85(8/1/86)
SWEDEN Jacobson & P (31/12/56)	2269.47	2279.81	2264.6	2248.04	2372.78 (7/11)	1729.57(29/1/86)
SWITZERLAND Swiss BankCpn(31/12/58)	575.8	571.88	570.10	571.2	625.5 (8/1/86)	497.2 (4/8/86)
WORLD MS. Capital Intl. (1/1/70)	—	400.6	400.4	400.3	402.4 (2/2/87)	249.8(23/1/86)

** Saturday February 7: Japan Nikkei 19550.21. TSE 1758.34.
Base value of all indices are 100 except Brussels SE—1,000. JSE Gold—255.7. JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors 10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financial and 20 Transports. c Closed. u Unavailable.

Closing prices, February 13

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
29 7/8	16	AAR s	.50	1.8	21	307	28 1/2	28 1/4	28 1/2	+1/4
32 3/4	21 7/8	ADT	.92	2.8	19	1671	u33 1/8	32	33 1/8	+7/8
38 1/2	19	AFG s	.12i	.3	11	436	37	36 1/8	36 1/4	-3/4
37	16 3/4	AGS			20	121	34 1/4	33 3/4	34	
15	6 3/4	AMCA				27	8 1/2	8 3/8	8 3/8	-1/4
62 1/8	47 1/4	AMR			12	5991	58 1/8	56 3/4	57 3/4	+1/2
27 1/2	24	ANR pf	2.67	10.		1	26 1/4	26 1/4	26 1/4	+1/2
16 1/2	10	ARX	.71t	5.5	12	144	12 7/8	12 5/8	12 7/8	+1/8
42 1/8	28 3/4	ASA	2a	4.9		655	40 5/8	38 3/4	40 5/8	+5/8
18 5/8	9 3/4	AVX		1.9		860	17	15 3/8	16 3/4	+7/8
32	26 1/4	AZP	2.72	8.7	10	1927	31 1/8	30 7/8	31 1/8	+1/8
56 3/4	33	AbtLb s	.84	1.4	26	5915	59 3/4	57 1/8	59 1/4	+1 1/2
32 1/2	25	AccoWd	.62	1.9	21	236	u33	32 5/8	32 3/4	+1/4
14 1/8	9	AcmeC	.40	3.0	24	207	13 1/2	13 1/8	13 1/8	
9 1/4	6 1/8	AcmeE	.32b	4.3	26	24	7 5/8	7 3/8	7 1/2	
23 7/8	17 3/4	AdaEx	3.43e	16.		91	21 7/8	21 1/8	21 7/8	+5/8
16 3/4	9 3/4	AdmM s	.24	1.5	13	37	16 3/8	16	16 3/8	+3/8
20 3/8	12 1/8	AdvSys	.62t	3.0	17	232	u20 1/2	20	20 1/2	+1/2
32 7/8	12 7/8	AMD				5599	22 1/8	21 3/8	22	+5/8
10 3/4	6 1/4	Adobe				37	7 7/8	7 7/8	7 7/8	
19 1/2	13 3/4	Adob pf	1.84	9.7		23	19 7/8	18 7/8	19	
21 7/8	18 3/8	Adob pf	2.40	11.		25	21 5/8	21 1/8	21 1/8	-1/2
18 5/8	11 1/2	Advest	.12a	.9	11	412	14 1/8	13 7/8	14	-1/8
68 1/4	53	AetnLf	2.64	4.3	9	4181	61 3/4	60 1/2	61 1/2	+1/4
54 5/8	51 1/8	AetL pf	3.84e	7.5		875	52 7/8	52 1/2	52 1/2	-3/8
101 1/2	87 1/4	AetL pfC	5.67e	6.0		20	94 7/8	94 1/2	94 1/2	+1/2
45 3/4	18 7/8	AfilPb s	.32	.7	25	371	u46 5/8	44 1/2	46 5/8	+2 5/8
28 3/4	18 7/8	Ahmns	.88	3.6	7	5979	24 3/8	23 3/4	24 1/8	+1/2
[illegible]										

Continued on Page 33

NYSE COMPOSITE CLOSING PRICES

Continued from Page 32

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		X Y Z								
72¼	48⅝	Xerox	3	4.3	18	4349	70¼	67⅞	70¼	+1½
58¼	55	Xerox pf5.45		9.5		19	57½	56¾	57½	+¾
28¾	21½	XTRA	.64	2.3		106	28⅜	27⅞	28¼	−⅛
20	13½	Yorkin n				165	19¾	19¼	19¾	+⅜
6	2¼	Zapata				205	4	3⅞	3⅞	−⅛
43⅞	20¾	Zayre s	.32	1.1	20	1511	29	28⅝	28⅞	−⅛
28⅞	17⅞	ZenithE				922	22½	21¾	22⅜	+⅝
18¼	8	ZenLb s			65	1334	10¾	10⅜	10⅜	−⅛
22⅜	12⅜	Zero s	.36	1.9	20	187	18½	18⅛	18½	+⅛
47	32¾	Zurnin	1.32	2.8	19	670	u48	46½	47⅝	+1⅞
10⅜	8¾	Zweig n.10e		1.1		716	9½	9⅜	9½	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices February 13

OVER-THE-COUNTER

Nasdaq national market, closing prices, February 13

Continued on Page 31

FOREIGN EXCHANGES

Rumours and doubts surround the dollar

By Colin Millham

THE DOLLAR had a fairly quiet week, when the main factors were comments by Mr James Baker, US Treasury Secretary, and rumours about a meeting of Group of Five ministers to discuss currency problems.

Mr Baker gave an interview on US TV, and on the following day gave testimony before a Congressional committee. His remarks were generally regarded as ambiguous, when perhaps Mr Baker was trying to be all things to all men.

He declined to suggest an appropriate rate for the dollar, but also did not make it clear whether he regarded the US currency's fall and that another sharp fall was possible.

There was little doubt the dollar as virtually over, or expected to see a further decline to correct the imbalance in trade between the US and its major trading partners.

Uncertainty about the US Administration's attitude towards the dollar created nervousness, and brought the currency back after a period of recovery on encouraging economic news.

Japanese officials appeared to be keen to hold a G-5 meeting, but by the end of last week Mr Kiichi Miyazawa, Japanese Finance Minister, had to admit he was spending the weekend at home. This put an end to rumours Mr Miyazawa had left the country, and was on his way to Paris.

The main question hanging over the dollar is whether the market's attitude has changed, and the currency will now move up on good economic news, but fail to react to disappointing figures.

Bankers Trust do not believe this is the case, suggesting the dollar only moves down after a sharp bear squeeze. The bank predicted on Friday this had already happened, accounting for the dollar's recovery from its recent lows, failed to react strongly to last week's US data. A record fall of 5.8 per cent in January retail sales pushed the dollar down, but there was no attack on the DM 1.81 level. Several economic figures were published Friday, but these were near to the general range of forecasts and had little impact.

January industrial production rose 0.4 per cent, while expectations ranged between a flat figure to a rise of 0.3 per cent. Business inventories fell 0.5 per cent, compared with forecasts of a fall of 0.4 per cent to 0.7 per cent. Producer prices rose 0.6 per cent, against expectations of 0.4 per cent to 0.6 per cent.

Barclays Bank and stockbrokers James Capel agreed the weekly money data from the Federal Reserve explained why there had not been a tightening of monetary policy, but Capel suggested this did not explain why the Federal funds rate was so high. On Tuesday financial markets were surprised when the Fed failed to add liquidity to the New York banking system, and suspected this pointed towards tighter monetary policy.

The most significant figure to be released this week is likely to be revised fourth quarter US gross national product growth on Thursday. According to a survey by Money Market Services this will be revised up to 2.0 per cent from the disappointing level of 1.7 per cent published last month.

The impact on the dollar is likely to depend on the market's view of the US attitude towards the currency. At the moment few dealers would expect a tightening of monetary policy and an agreement to stabilise the foreign exchanges.

£ IN NEW YORK

Feb 13	Close	Previous Close
£ Spot	1.5280-1.5290	1.5172-1.5182
1 month	0.54-0.53 pm	0.53-0.52 pm
3 months	1.64-1.61 pm	1.61-1.58 pm
12 months	5.65-5.55 pm	5.60-5.50 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Feb. 13	Previous
8.30 am	68.7	68.5
9.00 am	68.7	68.6
10.00 am	68.7	68.6
11.00 am	68.7	68.6
Noon	68.7	68.5
1.00 pm	68.7	68.5
2.00 pm	68.8	68.6
3.00 pm	68.8	68.7
4.00 pm	68.8	68.7

CURRENCY MOVEMENTS

February 13	Bank of England Index	Morgan Guaranty Changes %
Sterling	68.8	−25.3
U.S. Dollar	104.3	−2.7
Canadian Dollar	77.8	−10.9
Austrian Schilling	139.4	+10.7
Belgian Franc	100.7	−3.6
Danish Krone	94.1	+4.7
Deutsche Mark	148.3	+22.6
Swiss Franc	170.8	+21.1
Guilder	135.6	+15.0
French Franc	72.5	−12.1
Lira	48.6	−16.1
Yen	209.3	+56.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

CURRENCY RATES

Feb. 13	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.831579	0.742445
U.S. Dollar	5.5	1.2588	1.12597

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu February 13	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.7230	+0.62	+0.62	±1.5344
Danish Krone	7.85212	7.78685	−0.83	−0.83	±1.6404
German D-Mark	2.05853	2.06325	+0.23	+0.23	±1.0981
French Franc	6.90403	6.86247	−0.60	−0.60	±1.3674
Dutch Guilder	2.31943	2.32840	+0.39	+0.39	±1.5012
Irish Punt	0.768411	0.775426	+0.91	+0.91	±1.6684
Italian Lira	1483.58	1468.20	−1.04	−1.04	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Feb. 13	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr
£	1.	1.521	2.783	233.8	9.270	2.353	3.138	1978.	2.044	57.65
$	0.658	1.	1.830	153.7	6.097	1.547	2.063	1301.	1.344	37.92
DM	0.359	0.546	1.	84.01	3.332	0.845	1.128	710.9	0.735	20.72
YEN	4.278	6.505	11.90	1000.	39.66	10.06	13.42	8462	8.745	246.6
F Fr.	1.079	1.640	3.002	252.2	10.	2.538	3.385	2134.	2.205	62.19
S Fr	0.425	0.646	1.183	99.36	3.940	1.	1.334	840.8	0.869	24.51
H Fl.	0.319	0.485	0.887	74.50	2.955	0.750	1.	630.4	0.652	18.37
Lira	0.506	0.769	1.407	118.2	4.687	1.189	1.586	1000.	1.033	29.15
C $	0.489	0.744	1.361	114.4	4.535	1.151	1.535	967.6	1.	28.20
B Fr.	1.735	2.637	4.827	405.5	16.08	4.081	5.442	3431.	3.546	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Feb. 13	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Mar	Calls—Last June	Puts—Last Mar.	Puts—Last June
106	10.08	10.29	0.00	0.07
108	8.08	8.38	0.00	0.16
110	6.08	6.53	0.00	0.31
112	4.08	5.11	0.00	0.53
114	2.10	3.54	0.02	1.32
116	0.38	2.43	0.30	2.21
118	0.05	1.50	1.61	3.28
120	0.00	1.09	3.56	4.51

Estimated volume total, Calls 367 Puts 232
Previous day's open int. Calls 18,160 Puts 11,188

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Mar.	Calls—Last June	Puts—Last Mar.	Puts—Last June
90	9.20	8.32	0.00	0.10
92	7.20	6.44	0.00	0.22
94	5.20	5.03	0.00	0.45
96	3.22	3.39	0.02	1.17
98	1.32	2.29	0.12	2.07
100	0.19	1.31	0.63	3.09
102	0.02	0.60	2.46	4.38
104	0.01	0.34	4.45	6.12

Estimated volume total, Calls 100 Puts 1
Previous day's open int. Calls 1,094 Puts 594

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Feb	Calls—Last Mar	Puts—Last Feb	Puts—Last Mar
17250	18.00	18.07	0.00	0.07
17500	15.50	15.65	0.00	0.15
17750	13.00	13.30	0.00	0.30
18000	10.50	11.05	0.00	0.55
18250	8.01	8.97	0.01	0.97
18500	5.55	6.86	0.05	1.36
18750	3.29	5.39	0.29	2.39
19000	1.59	3.94	1.09	3.44

Estimated volume total, Calls 3, Puts 10
Previous day's open int. Calls 351 Puts 441

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.25-38.35.

MONEY MARKETS

Bulletin encourages easier rates

INTEREST RATES eased on the London money market on Friday after a week of little movement. Even on Friday three-month interbank only moved down to 11-10⅞ per cent from 11-10$\frac{15}{16}$ per cent, and there was no suggestion of an early cut in clearing bank base rates.

UK clearing bank base lending rate 11 per cent since October 15

Earlier in the week at least one clearing bank had regarded 10½ per cent as a favourable level to issue one-year sterling certificates of deposit. This led to comments that there was no great confidence that interest rates would fall very much this year.

Sterling held reasonably firm, in spite of nervousness about oil prices, and the easier trend in rates was also a reaction to the Bank of England Quarterly Bulletin. The central bank called for a cut in the UK public sector borrowing requirement, which in turn should lead to lower interest rates.

Confidence was also boosted because the high level of government revenues is expected to produce a cut in income tax in next month's Budget, and increase the chances of another Conservative government in a possible election year.

On the other hand there was little expectation that base rates would be cut until the Budget, and possibly not until nearer the time of the election.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb. 13) 3 months U.S. dollars		6 months U.S. dollars	
bid 6⅜	Offer 6½	bid 6⅜	Offer 6½

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds			
Prime rate	7½	One month	5.72	Three year	6.63
Broker loan rate	7¼-7½	Two month	5.61	Four year	6.78
Fed funds	6$\frac{1}{16}$	Three month	5.88	Five year	6.86
Fed. funds at intervention	—	Six month	5.95	Seven year	7.10
		One year	6.01	10 year	7.27
		Two year	6.47	30 year	7.57

LONDON MONEY RATES

LIFFE-STERLING £25,000 $ per £:
March 1.4990 — — 1.5005
June 1.4850 — — 1.4870
Estimated volume 5 (12)
Previous day's open int 1,031 (1,031)

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. Pro Forma Figures : Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. n Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ‡ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ✣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

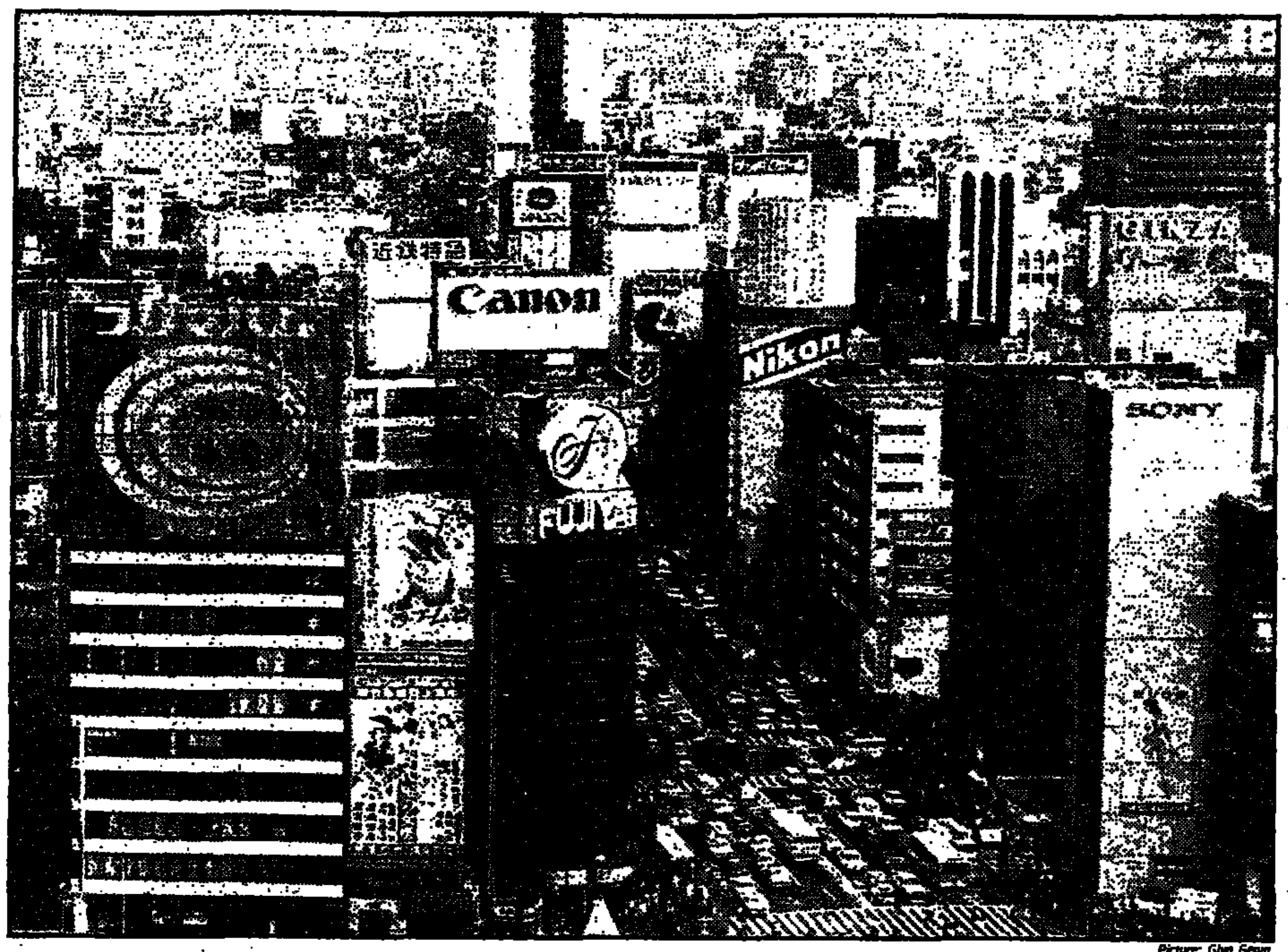
JAPAN

BANKING, FINANCE AND INVESTMENT

Now that they have become the world's biggest lenders, Japanese financial institutions may be entering a period of consolidation overseas. The climate at home is changing too.

Towards a season of domestic horsetrading

By Ian Rodger



Picture: Glyn Genin

Famous names in bloom above the Ginza commercial and entertainment heartland of Tokyo

THE RAPID advance of Japan's financial institutions in the past two years into world market leadership positions has stunned bankers and securities dealers everywhere.

By the third quarter of last year, Japanese banks had become the world's biggest lenders, accounting for nearly a third of the international assets of banks reporting to the Bank of International Settlements. This put them far ahead of the US banks, which now have less than a 20 per cent share.

Meanwhile, Japanese banks and securities companies have also become leaders in the Eurobond markets, and Tokyo has become a bigger centre for euro-currency dealings than London.

Helped by the surge of the yen, Japan's four largest banks are now also the world's four largest, while Nomura Securities towers above all its rivals with mammoth pre-tax profits last year of Y495.7bn ($3bn).

Financial industry leaders around the world can only look on in trepidation, wondering how and where the immensely capable and powerful Japanese will advance next.

In fact, the Japanese financial industry may well be entering a period of consolidation abroad, not only because companies have to deal with the inevitable management problems that come with rapid growth, but also because they must focus more attention on the rapidly changing climate at home. Momentous structural changes, which will affect the competitive position of all Japanese financial institutions, are in the air.

Changes in the regulation of the financial industry in Japan are happening far more quickly than most analysts, both within and outside the country, expected.

As a way of appreciating just how fast things have moved, consider the problem of briefing a hypothetical leading Tokyo banker who has just returned from three years of total retreat in a Buddhist monastery.

Since he left, interest rates on large time deposits have been freed from government control, causing rapid growth in the money markets where there are new certificates of deposit, money market certificates, bankers' acceptances and short-term government bonds. Controls on yen-denominated foreign lending and on foreign investing by large institutions have been largely abolished, leading to the establishment of huge euroyen markets and, late last year, a Japanese offshore market.

Several foreign banks have been allowed by the Ministry of Finance to open securities affiliates, thus breaching the legal barrier between banks and securities companies. City banks have developed sophisticated swap systems to enable them to raise long-term funds, thus breaching the barrier between long and short-term banks. Leading banks have opened informal representative offices in Tokyo of their London-based securities branches in an attempt to get into the local securities business.

A regulatory framework has been introduced to cover the investment advisory sector. The tax-free savings system is about to be abolished.

It is a staggering list, but it also serves to emphasise that the big changes are yet to come. They include:

- Removal of controls on interest rates on small deposits, including those taken by the Post Office;
- Creation of corporate bond and commercial paper markets;
- Removal of arbitrary divisions between banks, and between banks and securities companies; and the
- Opening up of the Stock Exchange to general membership and the removal of fixed commission rates.

The changes achieved to date have been largely painless and, for most participants in the system, highly beneficial. However, each of the big issues yet to be dealt with involves restrictive practices that have been vital to the health of many banks and securities dealers.

Nomura's profits, for example, might be rather less impressive if the Tokyo Stock Exchange's fixed commission system were abolished. Similarly, the Post Office might have difficulty hanging on to its huge one-third share of total national savings if it had to compete for funds on the basis of market rates.

As each one of these issues is dealt with, there will be screams of agony from the parties that are going to be injured, and so it will become increasingly difficult to achieve agreement. "The higher you go, the steeper it gets," Mr Toyoo Gyohten, the Vice-Minister of Finance for International Affairs, says calmly.

However, Mr Gyohten leaves no doubt of the Government's commitment to reform. "The financial markets here must be distinguished by quality, not by any special rules," he said in a recent Financial Times interview. And he sees deregulation in the context of important social changes taking place in Japanese society. "So far, we have kept people and corporations away from making their own risk choices." Increasingly, they will be expected to make their own choices.

It is difficult to predict exactly how the deregulation process will proceed but, based on the experience of the past three years, things will probably happen more quickly than most people expect. A momentum has been built up and, to some extent, market forces and the ingenuity of money managers are forcing the pace.

That seems to be the case, for example, with the opening up of the corporate bond market, which is now likely to take place this spring. The problem with this development is that it will take away the large and highly profitable collateral-related activity carried out by banks. It is not clear what, if anything, the banks will get in return for accepting the authorisation of more companies to issue unsecured bonds.

However, the Government seems determined to push ahead, partly because it wants to put an end to the rather embarrassing spectacle of Japanese companies flying off to the Euromarkets to issue yen bonds for sale mainly to Japanese institutions.

"As we make progress in domestic deregulation, the excessive presentation of Japanese banks in Europe will

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contents

Domestic securities houses

Earnings outlook remains bright

ARTICLE 65 of the Japanese Securities Exchange Law is currently proving the basis of a bonanza for the securities houses.

While the banks look on jealously at the process of securitisation—at present roughly 1 per cent of Japan's banking deposits, worth Y5.6 trillion (million million) or $37bn, are being switched each year into the securities markets—they are prevented by Japan's version of the Glass-Steagall Act from following the money.

Profits of the securities houses have soared. In the year ended last September, net income of the big four—Nomura, Daiwa, Nikko and Yamaichi—jumped by an average of some 80 per cent.

The biggest, Nomura, showed a net profit of Y150.6bn (about $1bn) and on the back of the freakish earnings multiples now being seen in the Japanese stock market its market capitalisation has advanced to awesome levels: recently it was worth over $30bn.

Last autumn's commission rate cuts on large equity transactions, on deals of Y10m or more, were a response to the surge in profitability.

The big four estimated that the changes would trim their commission income by 12 per cent in the current financial year. But such has been the surge in value and volume of business that the earnings picture continues to look bright.

The banks cannot enter the securities business directly in Japan, being restricted to 5 per cent holdings in securities companies, but nevertheless they are lining up associated houses as best they can. In practice the banks and their affiliates can work quite closely together, even if the direct financial links can only be loose.

In domestic terms it seems unlikely that Section 65 will be substantially amended in the foreseeable future, whatever the frustration of the banks, but international developments are generating some intriguing regulatory headaches.

Most Japanese financial institutions are eagerly joining in the financial free-for-all which is permitted elsewhere, especially in London. Many Japanese banks have securities operations in Europe, and Nomura (and now Daiwa) are establishing banking subsidiaries in London.

But these international operations are severely restricted in what they can do back home in Japan, where rigid separation applies. The Japanese are now starting to realise that this may be putting them at a disadvantage in relation to foreign banks and securities firms.

While non-Japanese continue to fume about the lack of reciprocity in Tokyo, especially in areas such as *membership of* the Tokyo Stock Exchange, the Japanese are concerned that foreign banks are obtaining securities licences in Japan in rapidly increasing numbers.

This is being done under cover of the legal device that their securities branches are only 50 per cent owned by the bank in question, with sleeping shareholders such as BP or Ciba-Geigy being wheeled in to provide non-banking support to comply with the letter of the law.

DECLARED CAPITAL OF SECURITIES COs. (bn YEN)

End-year	
1981	318.1
1982	335.4
1983	369.9
1984	429.4
1985	477.8
1986*	513.2

*End-June.

The prospect of American commercial banks like Morgan Guaranty being granted securities branch licences (Morgan's application is said to be almost through the pipeline) is upsetting the securities houses. They argue that they are not allowed to be banks in the US.

Japanese banks are also watching the situation closely. Why should not their European securities subsidiaries be allowed to set up in Japan under the same 50 per cent-owned legal device that the foreign banks are being permitted by the Ministry of Finance to employ?

The securities houses have a slightly ambivalent attitude here. In setting up banks in London (Nikko and Yamaichi also have applications pending) they are seeking a wider financial role.

They want to be able to provide clients with the whole range of financial services—although, of course, they will not be able to do this in Tokyo. This restriction might seem a little irksome for them.

However, the securities houses have far too much to lose domestically to want any major changes in Article 65, although the ban on dealing in foreign exchange, an exclusive banking preserve, is proving irksome (and has no parallel in the US under Glass-Steagall).

Meanwhile, the leading securities houses' profits are being ploughed back into extensive computerisation *programmes*, ranging from high-powered mainframe installations and global information technology networks to the provision of lap-top personal computers to thousands of retail salesmen.

House-to-house selling is still of fundamental importance to the Japanese securities houses, despite the gradual institutionalisation of the market. Personal computers for salesmen will offer the opportunity for instant portfolio valuation and appraisal.

But only the big houses will be able to afford the latest technology, creating the probability that the securities industry will become still more polarised as the small brokers lag behind.

There is certainly scope for rationalisation, with more than 200 securities companies still registered in Japan, despite a gradual concentration over the years.

The securities companies can be divided into three tiers. After the big four, the second tier *of* a score or so includes a number of houses that are satellites of the banks, and it can be expected to grow as the banks attempt to upgrade *these* associates.

This sector certainly will not be short of capital, but the same may not be true of the third tier of small firms, which could come under significant pressure.

One particular challenge is the need to provide international products to the domestic customer base, as the savings flow from Japan increasingly spills overseas. This applies especially to institutional clients, who are being targeted by foreign securities firms.

The big four all have considerable international networks (with perhaps 10 per cent of staff resident abroad, and overseas profits, depending on definitions, of perhaps 15 per cent of the total). Even so, coverage is patchy.

Second-tier firms face considerable problems in this area, which is a reason for thinking some of them may be driven more closely into the orbits of banks or other institutions.

One possibility is that some of the foreign securities companies may wish to buy—or at any rate take stakes in—the middle-ranking domestic houses, which would allow them to graft international expertise on to the domestic sales network provided by the Japanese broker.

The possibility has certainly been looked at by a number of foreign securities firms, although no deal has been struck so far. Many of the suitable Japanese houses are under the protective umbrellas of the big four or the banks; others are family businesses which might feel a sense of shame at giving up their independence; and the risk of *culture clashes* would have to be carefully analysed.

In any case, the securities industry has been so prosperous that hard choices have not had to be made. Maybe tougher conditions at some stage in the future will precipitate action, but the boom in the markets does not suggest any early pressure.

Barry Riley

The bond trading floor of the Tokyo Stock Exchange. Ashley Ashwood

Government bonds and futures

Plea for auction system for rates

ONE DAY in mid-January the Japanese government bond market turned over some Y10 *trillion ($65bn), not counting* another Y5 trillion traded through the interbroker market and an underlying Y10 trillion traded through the futures market.

Add all that together, and a daily turnover of some Y25 trillion shows how big the government bond market has become, spurred by the desire of institutional investors to trade in order to boost the flagging returns on their bond holdings.

Nor is that all. A very substantial local market has also developed *in Tokyo in US* Treasury bonds following the big Japanese purchases of these and other foreign bonds.

Sometimes T-bond turnover in Tokyo can reach $10bn, as much as a tenth of the New York level, and arguably more significant than that proportion might suggest, because the Japanese business is concentrated in long bonds.

The volume of outstanding Japanese government debt has ballooned over the past decade, first as a result of the oil shock and then as a reflection of the need to boost government spending.

Partly as a result of the Government's increasingly pressing need to sell debt (no government bonds at all were sold until 1965), the government bond market has become one of the most broadly-based in the tightly restricted Japanese financial system.

The banks and securities companies compete directly in this over-the-counter market, which *they cannot in corporate bonds* where the securities companies have the field to themselves.

Primary issues are made through a comprehensive underwriting syndicate that includes various kinds of banks, the securities houses and certain other institutions including life insurance companies.

This system developed at a period when the Ministry of Finance had a particularly high degree of control over the Japanese financial system, and at one time the MoF could almost set its own rate.

But progressive liberalisation of the system, and the trend towards internationalisation, has brought pressure from several directors for change.

Already recent years have produced some controversial and even abortive negotiations on rates for bond issues, and now there is growing pressure to go over to a much more flexible auction system.

Mr Atsushi Saito, director of bond trading at Nomura, the biggest bond market operator, with a claimed 25 per cent share of trading, thinks that the long bond primary market should go over to an auction system, as the market in short-term paper already has.

One trigger could be the determination of foreign securities firms like Goldman Sachs and Salomon Brothers to obtain a much bigger underwriting syndicate share than their present 0.02 per cent of primary Government bond issues.

Mr Saito says the newcomers' complaints are understandable, and, because renegotiating the market shares of dozens of banks and other institutions would be politically extremely difficult, it might be better to scrap the system and start again with an open auction.

The only foreign house to make much of an impact so far in the domestic yen bond barket is Salomon Brothers, which has made a *particular* push into the government bond futures market where it can have a 2 to 3 per cent share of trading.

Salomon's managing director in Tokyo, Mr Deryck Maughan, explains that his firm is keen to exploit the cash and futures arbitrage technology, which has been developed in New York and is not so widely applied in the Tokyo market where the futures contract has only been traded since October 1985.

GOVERNMENT BOND ISSUES (trillion YEN)

Fiscal years	
1981	13.86
1982	18.07
1983	18.45
1984	18.20
1985	21.97
1986*	11.57

*First half

Trading is through the Tokyo Stock Exchange on a special membership basis, which means that the lack of full exchange seats available to foreign firms does not cause problems like those in the equity market.

The futures contract has been hugely successful. Volume wavered for the first six months, then jumped, and is now actually bigger than for the Chicago-based trading in US Treasury bond futures.

This is explained by the fact that it is the only financial futures contract available to Japanese investors and traders, in contrast to the range on offer in the US. Moreover traders cannot short the cash bond market in Tokyo.

"There is no other hedging instrument available," says one bond market expert. "All the business is concentrated in the one contract."

Further development of the futures market is hindered by regulatory problems. There is a clear need, for example, for a market in US T-bond futures in the Tokyo time zone available to Japanese investors.

But such a contract is officially regarded as a combination of a bond contract (restricted to securities companies) and a currency contract (restricted to banks). Consequently there is no institution that could trade such an instrument, even if it were to gain official approval.

Similar problems face short-term interest rate or foreign currency contracts, where the banks have no wish to encourage competition. But prospects for an equity stock index futures contract are rather more favourable.

At present, domestic Japanese investors are not allowed to buy the Nikkei index contract, which trades in Singapore on Simex (and perhaps soon also in Chicago); and, in fact, this kind of equity-based futures contract is not yet permitted by Japanese securities law.

The Osaka Stock Exchange intends to get around the existing regulations in April by launching a contract based on a parcel of 50 stocks rather than an index.

This will give it at least a 15-month head start on the Tokyo Stock Exchange, which will wait for amendments to the Stock Exchange Act permitting futures and options contracts.

This legislation seems likely to miss the current legislative season in the Diet, so a new law is unlikely to be enacted before spring 1988, with an earliest date for the launch of the new futures contract in the summer of that year.

An option on the futures contract *could follow* in due course, though traded options on individual stocks are not envisaged at this stage because the members of the exchange are concerned to protect their margin business.

Barry Riley

Domestic corporate bonds

An end to the borrowing paradox

ONE OF the most striking features of international capital markets in recent years has been the huge volume of funds raised by Japanese companies outside their own country. The domestic bond market, by contrast, has languished to the point where, until recently, it appeared to have been overlooked among the various facets of the financial system being steadily liberalised.

All that has changed with the measures announced late last month by the Ministry of Finance to reinvigorate the domestic bond market. The measures, expected to take effect in April, will not immediately put the Tokyo bond market on an equal footing with the equity market as an international centre of attraction for fund raising and investment. But they should help to end the present paradox, whereby the world's leading creditor nation remains a substantial importer of capital because corporate and even public sector borrowers have turned their backs on their home debt market.

They have done so for two main reasons. First, it is currently, and in recent years has usually been, cheaper to borrow yen outside Japan. With the blessing of the Japanese authorities since the 1980 Foreign Exchange Law, the pool of Euroyen (yen deposits and yen currency held outside the country) has grown rapidly, although it still accounts for only 2.7 per cent of international bank assets, according to the Bank for International Settlements.

Terms and size limits on bond issues have been progressively relaxed as the volume of available funds has grown, and borrowers have benefited from increasingly competitive pricing, gaining at least a half percentage point on what they would have to pay in Tokyo as of last month.

While interest rates could, at least in theory, move to the advantage of the domestic bond market, borrowers have also been driven away by the slow and cumbersome issuing procedures. "The main requirement is to shorten and simplify filing procedures," says Mr Kiyoshi Tsugawa, director in charge of capital markets at the Bank of Tokyo. "In the Euromarkets, any issuer can choose a lead underwriter, set the terms and enter the market the same day. In Tokyo it takes at least two months."

A second obstacle has been the requirement until now that in addition to an underwriter, which in Tokyo must be a securities firm, an issuer of bonds must commission a bank to arrange collateral. The system has been highly profitable for banks, which argue that they in return provide not only the collateral, but also a form of reassurance to investors that is more readily accepted than the rating system (still in its infancy in Japan).

The bank's role does not extend to guaranteeing the borrower's credit status in a legal sense, although in the collapse last year of Sanko Steamship, Credit Bank, as the long-term commissioned bank for several outstanding bond issues, took the lead in organising terms acceptable to creditors.

The MoF's package of measures to encourage the domestic market is concerned chiefly with expanding the numbers of companies allowed to issue bonds without collateral. From 70 at present, the number permitted to issue straight, unsecured bonds will rise in April to 170, while the number authorised to issue convertibles will rise to about 330 from 180.

In each case, minimum net worth requirements are also being reduced, with prospective borrowers being encouraged to seek formal credit ratings from a recognised agency as a partial alternative to net worth in determining eligibility.

Other steps that the MoF is either considering, or is being pressed by the Japanese financial community to consider, include:

- Shortening the waiting period between a borrower's commitment to a bond issue and its launch. One approach being studied by the securities industry itself would be shelf registrations along US lines, though this would require legislative changes that could take a year or longer.
- Liberalisation of the range of permitted maturities (now subject to an upper limit of 10 years), free choice between lump sum and scheduled redemption, and the introduction of such well-established features of overseas markets as floating rate notes.
- Further encouragement of the already less restricted private placement sector. Measures to this end were announced last November and will come into effect in April, alongside the new collateral rules for public issues. They will raise the issue ceiling on privately placed bonds to Y10bn from Y2bn and will abolish the so-called "no return" rule that prevents an issuer which has launched a public bond from subsequently tapping the private market.

In addition, the Japanese Ministry of Justice has set up its own advisory committee to study changes to legislation covering bond issues, though its brief does not call for a final report before March, 1989.

There seems little doubt that the Japanese Government now feels a sense of urgency in attempting to establish a fully functioning bond market in Tokyo. An advisory committee to the MoF pointed out last year that primary corporate issues in fiscal 1985, at Y875bn, were little more than half the Y1,500bn recorded in fiscal 1975.

If the convertible sector has been livelier, especially in recent months, the main reason seems to lie in the buoyancy of equities.

Yet the MoF's proposed reforms do not attempt to address what many regard as the central problem; the increasingly insistent pressure from the banks to be allowed to deal in private sector bonds. At present, under Article 65, this business is reserved to the securities industry, although Japanese banks have long been allowed by the MoF to underwrite and deal in bonds in the Euromarkets.

The banks argue strongly that without their participation, the secondary market in Tokyo will continue to lack depth and liquidity, and they point to the huge growth of the government paper sector (which makes up the vast bulk both of primary issues and secondary trading) since they were given permission in June 1984 to deal in issues with less than two years left to maturity.

A further consideration for the banks is the need to be involved in the securitisation of lending which, in Japan as elsewhere, threatens their traditional banking business.

"It is no longer a level playing field between the banks and the securities houses," says Mr Junichi Nishiwaki of Mitsubishi Bank. "The time has come for Tokyo's Chinese walls to be knocked down."

At some future date, according to bankers and securities company executives, the two industries will have to strike a deal that might, say, give banks the right to enter the bond market in return for their agreement to drop the commissioned bank system or, perhaps, to allow securities firms to deal in foreign exchange.

For the time being, however, no such deal is even on the horizon, and the MoF is likely to have to limit its encouragement of the bond market to what can be achieved within the existing compartments imposed by Article 65.

Adrian Dicks

RELATIVE COSTS OF YEN FINANCING

Indicative terms for an AAA-rated issuer raising Y20bn

	Term rate	Interest %	Issue price	all-in cost to borrower AIBD method %	US method %
Yen bond public offering	10 years	5.7	100	5.972	6.061
Yen bond private placement	10 years	6.0	100	6.163	6.258
Euroyen bond public offering	7 years	5¼	100⅜	5.44	5.514
Yen syndicated loan	10 years	6.3	100	6.351	6.452

Interest rates in January 1987.

Source: Industrial Bank of Japan.

Horsetrading ahead

Continued from Page 1

be discouraged," Mr Gyohten predicts.

The arbitrary divisions between types of banks — long term, short term, savings — also seem set for an early demise, not least because of the sudden development of yen-to-yen swaps. Also, the Finance Ministry, under pressure fom US and European authorities to force Japanese banks to improve their capital adequacy ratios, is considering allowing the city banks to issue long-term securities.

The really big battles will be fought over the removal of controls from short-term deposits, the elimination of the barrier between banking and securities businesses and, on a different front, the opening up of Stock Exchange membership and deregulation of its commission structure.

The Post Office has set itself firmly against being forced to adopt market interest rates for its deposits. In response, the banks have said that they are not willing to have their small deposit rates freed if their major competitor can carry on with fixed rates.

The securities industry puts up a token show of unhappiness about not being able to carry out foreign exchange transactions, this being an activity reserved for banks. But there is no doubt that it is the banks that have come out worst in the split of the two businesses forced by the US occupation forces after the second world war, especially in recent years since the strong trend to securitisation of corporate debt has been established.

However, bankers are pessimistic about an early removal of the legislation in question, Article 65 of the Securities and Exchange Act. Their main reason for this pessimism is put euphemistically as the strong financial support provided by the securities industry for the ruling Liberal Democratic Party.

The securities industry is arguing that Article 65 cannot be removed until the similar Glass-Steagall legislation is removed in the US. Although there is no obvious or necessary connection between US and Japanese legislation, this argument seems to have been accepted by the government.

It may be subjected to a severe test in the next few months if, as widely expected, the MoF issues a securities licence to an affiliate of Morgan Guaranty. Japanese banks have chafed as foreign banks have been allowed to get into the securities business while they have not. The MoF has justified its policy by saying that the licensees were European securities companies, and in Europe, universal banking is permitted.

This explanation was sorely stretched in the cases of Citicorp, Security Pacific and Chase Manhattan (which acquired British securities houses) but it has held. However, if Morgan Guaranty gets a licence, the Japanese banks will all queue for securities licences for their London merchant banks.

Japanese financial industry officials suggest that there will be a series of great horsetrading sessions at which the various interested groups will barter their various vested interests. "There has to be a kind of exchange deal, in which everyone loses a little—and everyone gains," Mr Gyohten said.

In fact, the losses for various players could be quite substantial, especially some of the smaller or poorly-capitalised banks and securities houses. Once reform is under way, the industry could be in for a round of fundamental restructuring.

Swaps

Yen-to-yens can help reduce the interest burden

IN JAPAN, people refer to semiconducter chips as the "rice" for new industries. Japanese bankers have come to think of swaps as the chips of finance, the indispensable components of their high-tech deals.

Since the rules on forward exchange contracts were relaxed nearly three years ago the Tokyo swap market has grown to rival those of New York and London. Since swaps are off-balance sheet transactions, it is difficult to obtain an exact measure of the size of the Tokyo market. However, judging by Japanese corporations' vigorous appetite for low cost financing in overseas capital markets and the heavy capital outflow caused by buying of foreign bonds by institutional investors the Japanese are regarded as being among the major swap operators in the world.

According to one recent estimate, the Tokyo yen connection captured 25 to 30 per cent of the $250bn in worldwide interest rate swap transactions carried out last year.

The Bank of Japan's survey on swap transactions dealt with by foreign banks operating in Japan showed that the outstanding balance of both interest and currency swap transactions reached Y4,900bn in the January-June 1986 half year, 60 per cent higher than in the first half of 1985. The central bank also reckoned that the size of the Tokyo market was equivalent to that of New York and London.

This is one of the few sectors in which foreign banks have done particularly well in Tokyo. Five leading US banks, including Citibank, Morgan Guaranty Trust and Bankers' Trust, gained 80 per cent of swap business on corporation to corporation transactions and Japanese commercial banks to corporation transactions during the half year.

In the Tokyo market, the main activity has been interest rate swaps, with investors exchanging dollar fixed rate and floating rate liabilities. These accounted for Y2,180bn, or 40 per cent, of the total swaps handled by foreign banks in the first half of 1986. Currency swaps conducted between yen and Swiss franc, yen and dollar, or yen and other currencies reached Y1,820bn in outstanding balances, accounting for 30 per cent of the foreign banks' total during the half year.

These interest and currency swaps have almost been institutionalised. Novelty has come from "yen-to-yen" interest swaps—the practice of exchanging yen long-term fixed interest liabilities for yen short-term floating interest liabilities.

These yen-to-yen swaps, which only began appearing about a year ago, have grown rapidly. Outstanding balances dealt with by foreign banks in the first half of 1986 reached Y220bn.

Yen-to-yen interest swaps have been particularly popular with financially strapped Japanese companies such as shipbuilders, steel and chemical companies that have large long-term loans with fixed high interest rates. The swap offers them the opportunity to reduce their interest rate burden.

Here is how it might work. A corporation agrees to pay the short term floating interest charges on a six-month Euroyen note held by a foreign bank, in the hope that the short-term interest rate will decline. In return, and for a fee, the bank will pay the fixed interest obligation on the company's long-term debt.

The yen-to-yen swap has also turned out to be very usful to Japan's commercial banks, offering them the means to skirt around the rigid segregation of long-term and short-term banking in Japan. Japanese commercial banks are prohibited from raising long-term funds and restricted to the shorter end of the money market such as certificates of deposits bills, or short-term Euroyen deposits. This means they are at risk when competing for long-term assets.

The yen-to-yen interest scheme enables a commercial bank to swap its interest payments on short-term funds for long-term interest charges owed by a corporate borrower or with a foreign bank in Japan. In some cases, companies linked to Japanese commercial banks can be used as the partner.

More than 80 per cent of Eurobonds are now using swaps to lower funding costs, thus enabling foreign banks and Japanese securities houses to take an early lead in this market in Japan.

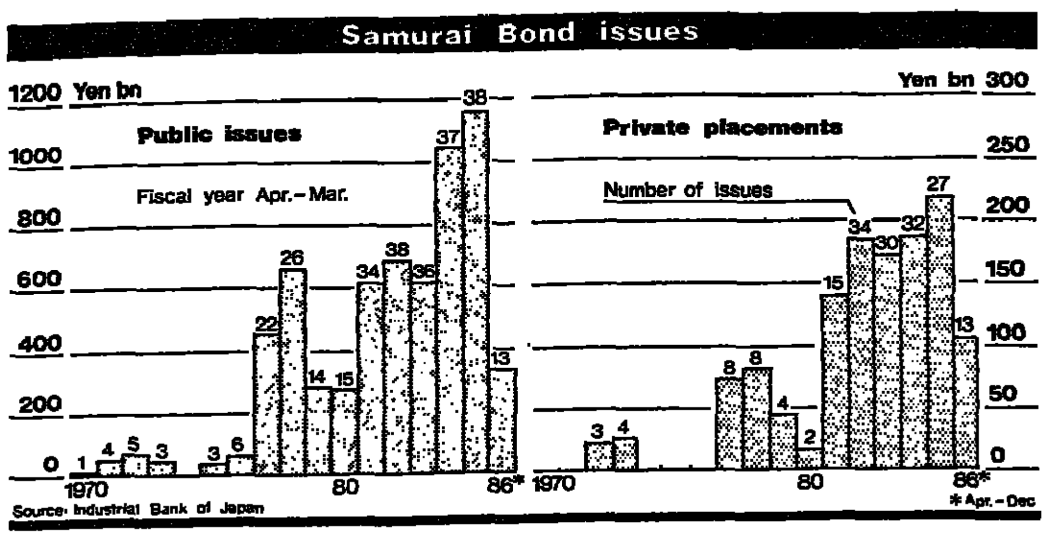
Japanese commercial banks have tried to catch up by undercutting swap rates as a marketing tool when competing for the mandate to be co-lead manager of a Eurobond underwriting group. The scramble by Japanese banks and brokers to obtain rankings in the underwriting league table has narrowed the spread to such an extent that there are complaints about "harakiri" swaps.

Some American bankers claim that about 90 per cent of swaps arranged by Japanese banks are still at the "hara-kiri" level. One European banker disagreed, saying that an increasing number of swaps change hands on a commercial basis.

Yoko Shibata

Samurai and Shogun bonds

Foreign borrowers invited to return



AS WELL as overshadowing the Tokyo domestic corporate debt market, the rapid growth of both new issues and secondary dealings in Euroyen bonds has had a dramatic effect on the development of the markets in paper sold by foreign borrowers in Japan.

By encouraging access to the Euroyen market by prime corporate names in late 1984, the Japanese authorities succeeded rapidly in one aspect of their strategy for encouraging the internationalisation of the currency, only to see a check imposed on their ambitions to build up Tokyo itself as a leading international supplier of capital.

In recent months, however, the Ministry of Finance has made clear that it recognises the problem. It has eased some of the terms of access to the Tokyo markets for foreign borrowers and has signalled that it wants to bring back to Japan part of the vast volume of offshore bond underwriting, issuance and secondary trading by Japanese financial institutions that developed during the long period of tight foreign exchange and capital market controls.

There are two sections of the Tokyo market for foreign issuers. The older and larger is the so-called Samurai market, denoting yen-denominated bonds issued in Japan by foreign borrowers. Inaugurated by Industrial Bank of Japan in December 1970 with a Y6bn issue for the Asian Development Bank, the market was closed to all but sovereign borrowers, government-owned or government-guaranteed agencies and supranational institutions until early 1982, when a limited number of top-rated corporate names first began to appear.

Much more recent is the Shogun market, meaning bonds denominated in foreign currencies but issued in Japan. Bank of Tokyo led the first such issue, of $300m, for the World Bank in August 1985. Of the total of 15 issues seen up to the end of last month, only two — $100m deal for Southern California Edison and a $50m deal for Sohio, a US subsidiary of British Petroleum — have been for pure corporate names.

A handful of deals then believed to be in the pipeline included GTE, the US telecommunications and electronics group, and Ciba-Geigy, the Swiss pharmaceuticals producer which would become the first non-US company to tap the Shogun market.

Reluctance on the part of many Japanese private investors to take positions in foreign currencies at a time of unprecedented yen strength would appear to lie behind the relatively slow growth of the Shogun sector.

Those Japanese institutions willing to buy foreign currency instruments can, moreover, find much greater liquidity and depth—to say nothing of currency and interest rate hedging opportunities—in the US Treasury and Eurodollar bond markets.

The sharp slowdown in activity in the Samurai sector also owes something to short-to-medium-term market conditions, according to bankers and securities executives in Tokyo. As of late January, there was a 50 to 60 basis point (or 0.5 to 0.6 percentage point) advantage for an AAA-rated sovereign borrower in issuing yen-denominated paper in the Euroyen, rather than the Samurai market. Costs associated with an issue have been reduced in Tokyo, though some securities industry executives claim they are still higher than in the Euromarket because of the commissioned bank system.

A more deep-seated problem, in the view of most Tokyo bankers and bond underwriters, lies in the still-cumbersome procedures of the market. Despite the Japanese authorities' recent step to widen the circle of potential issuers of Samurai bonds, all borrowers new to the market are obliged to show a rating of at least A or to obtain one. Terms and conditions have to be agreed with underwriters two months ahead of issue date, while a formal registration statement for the authorities and a full prospectus have also to be prepared.

In the days of a strong and relatively stable dollar, none of these conditions appeared especially onerous, and Japan was far from being the only country anxious to preserve an orderly queue in its foreign bond market, made up exclusively of top-quality names.

However, much of the driving force behind the Euroyen market's growth in recent months has come not from any fundamental growth in demand for the Japanese currency, but from swap deals. These are bond issues in which a borrower raises yen at the relatively low interest rates prevailing for the currency, and swaps the proceeds immediately into another currency, usually US dollars.

The swap business depends crucially on timing and flexibility. Tokyo bond underwriters, obliged to commit themselves under the local filing rules to all the terms of an issue two months ahead, say they have no realistic chance of matching the efficiency with which the Euromarkets can process swap transactions, arrange foreign exchange and line up the counter parties to deals.

Despite these obstacles to the immediate recovery of the Tokyo-based foreign bond markets, few doubt that in the long run, the MoF will succeed in its aim of pulling a substantial share of the bond business back to Tokyo, provided that it is sensitive to the market's needs.

As the home country of the yen, and the source of most of the fundamental demand for the currency, the Japanese market plainly offers potentially far greater trading depth for yen-denominated paper than offshore centres can match. Secondary trading in established Samurai issues remains strong. The MoF has succeeded in persuading the securities industry to extend trading hours, and 10 medium-sized houses announced last month that they would set up as market makers for the most heavily traded paper.

Japanese investors themselves are, moreover, increasingly important in the secondary market for Euroyen bonds, of which the proportion carried out in Tokyo is already rising fast.

Adrian Dicks

Glyn Genin

An appetite for things American ... while investment managers and institutions watch the dollar exchange rate and the US Treasury bond markets

Investment

Savings tide forces money abroad

TODAY JAPAN is a great money machine, with a personal savings ratio of some 17½ per cent and a rapidly growing mountain of wealth which, in 1986, spilled out in the form of long-term overseas investment to the tune of $132bn.

It is a situation that has led to very rapid expansion by domestic investment institutions, and is attracting a good many foreign investment companies seeking a slice of a highly profitable industry.

But producing returns of the size expected by Japanese investors has not proved easy. With long-term government bond yields down to little more than 5 per cent, the domestic institutions have been forced abroad only to find that the currency risks were more than they bargained for.

With more than $100bn piled into US Treasury bonds, the dollar-yen exchange rate has become a great obsession among Japanese investment managers.

There were huge paper losses when the dollar slumped after the G5 finance ministers' meeting in September 1985, and the dollar's recent further weakness has sent renewed tremors through the Japanese trust banks and insurance companies.

Yet the massive growth in savings leaves the institutions with no real alternative but to push more money abroad, perhaps reasoning that the future exchange losses must be less serious the higher the yen goes.

Thus Dai-Ichi Mutual Life, just one of the big insurance companies, received an inflow of Y2 trillion (million million) last year. Something like 30 per cent of the new money is going into overseas investments—mainly dollar bonds.

The Japanese institutions have always recognised that depreciation of the dollar was likely, but calculated that it could be amortised over the life of the bond and still be absorbed within a yield margin of 3 or 4 per cent (though the differential is now only about 2½ per cent.

What has upset the calculations is that the drop in the dollar has come far sooner and more sharply than was anticipated, to the extent that even the flow of interest payments has been sharply devalued.

Some argue that the life companies and trust banks have been too eager to offer high returns in order to compete for pension-fund and other corporate business. So far it seems they have been able to cover their losses by drawing on handsome inner reserves accumulated over the years, especially on equities. But this process of cross-subsidisation obviously cannot persist indefinitely.

There is some scope for diversifying into other currencies, but although currencies like sterling and the Australian dollar offer high returns they certainly do not solve the currency risk problem; and stable currencies like the Deutsche Mark or guilder do not offer attractive interest rates.

Whereas the trust banks and life assurance companies compete for pension fund business, there are other rivalries within the tightly compartmentalised Japanese savings market. For instance, the trust banks and the securities houses are the main protagonists in the booming business of managing surplus corporate funds.

Japanese companies are unwilling to invest heavily in Japan at present, because of the lack of competitiveness of Japanese manufacturing, and are consequently flush with funds.

Money has been pouring into special fund trusts and "tokkin," which are together now worth something like Y20 trillion. The appeal of tokkin to companies is that capital gains on the funds can be taken into their accounts as normal trading profits.

This is part of "zaitech," the practice of sophisticated financial management in Japan, and investment profits are particularly attractive to the many exporting companies which are at present suffering a nasty earnings squeeze.

One preserve over which the securities companies enjoy complete control is that of the mutual funds, or investment trusts as they are known in Japan. These jumped to more than Y30 trillion during 1986. Stock trusts have now pulled ahead of bond trusts, as a result of declining interest rates and the boom in the equity market.

Foreign investment managers are a relatively new factor in Japan as far as the domestic market is concerned. Previously, foreign branches have mostly been established as intelligence-gathering posts on behalf of foreign investors. But now they sense opportunities to sign up local clients.

One interesting development has been the licensing of nine foreign trust banks, including Bankers Trust, Barclays and Manufacturers Hanover. These trust banks have wide opportunities to develop institutional investment business, including pension funds and tokkin and fund trusts.

They face the problem that most Japanese corporate business is allocated in accordance with longstanding relationships. So in practice the foreign trust banks are probably concentrating for the time being on marketing to the Japanese subsidiaries of overseas companies, which may be more receptive to the international style of investment packages and pension plans they can offer.

NET PURCHASES OF STOCKS (bn YEN)

	Foreigners	Japanese financial institutions
1984		
Q1	−199	167
Q2	−876	337
Q3	−246	205
Q4	−261	278
1985		
Q1	74	250
Q2	−442	457
Q3	−269	298
Q4	−413	114
1986		
Q1	164	251
Q2	−565	776
Q3	−2,136	983

Investment Trusts' Net Assets

(in trillion yen)

Year-end	Stock trusts	Bond trusts	Total
1981	4.0	3.2	7.2
1982	4.8	4.5	9.3
1983	6.2	7.9	14.1
1984	8.0	10.3	18.3
1985	10.4	9.6	20.0
1986	19.1	13.0	32.1

(32 trillion yen is approximately $210bn)

The foreign trust banks hope, however, that Japanese clients will increasingly seek higher standards of reporting and disclosure than the minimal levels which are the rule with Japanese institutions.

The other foreigners in Tokyo are the specialist portfolio managers, hoping to gain a lucrative share of the advisory contracts attached to Japan's capital outflows, which are increasingly acquiring an equity element.

Several partnerships have been set up. Jardine Fleming, for example, tied up with Yasuda Trust and Banking two years ago to bid for institutional and corporate business, and more recently Murray Johnstone has formed a joint venture with Yamaichi to tap mutual fund opportunities.

But it is not clear whether such formal associations have been wildly successful. Other investment management firms have preferred one-off marketing arrangements for individual funds. In any case, the real benefit tends to stay in the hands of the Japanese associate, which has all the marketing clout.

It may be some time before foreign managers get a fair crack at the Japanes savings market, but a significant development could be the recent enactment of a new investment management law, allowing advisers to act for the first time with proper discretionary powers.

It is suggested that close to 100 management firms would qualify, of which perhaps 20 would be foreign-owned. The foreign managers would then be in a position at least to bid for contracts to manage tokkin, although pension funds and investment trusts would still be out of reach.

Details of the new discretionary management licences have yet to be worked out, and although the new law is a positive move there are fears of drawbacks.

For instance, small domestic "boutiques" might have to take on expensive overheads in order to comply with the new rules, while some of the foreign firms might have to book their profits in Japan rather than in a more lightly taxed location.

But Mr David Paterson, of Jardine Fleming Investment Advisers, is optimistic. "Now we will have a status within the financial industry," he says, "and we will have proper access to the authorities."

Barry Riley

Domestic banks

Call for further moves on liberalisation

TO OUTSIDERS, it may seem surprising that Japan's big commercial banks, now among the largest in the world, should feel themselves under threat. The sheer size of their deposit bases, their undoubted (if also unquantified) financial reserves and their increasingly ambitious activities abroad all add up to a powerful presence in the world financial community.

Yet on the home front, the pace and scope of liberalisation, which have surprised bankers no less than the rest of the Japanese financial establishment, have thrown into relief several potential threats to the way banks have traditionally done their business and earned their profits.

In common with banks elsewhere in the world, the Japanese city banks (the 13 large commercial banks) detect a trend towards securitisation of lending that could damage their traditionally close long-term relationships with their industrial customers.

Japanese companies have become prominent users of the eurobond markets, and have shown keen interest in developing—as rapidly as the Japanese Ministry of Finance has allowed—the full range of market-based financing instruments, such as note facilities and commercial paper, that are taken for granted by their counterparts in other countries.

The banks' instinct is to join in the rush to securitisation. Outside Japan, they have long been active in underwriting bond issues and in second bond market dealings.

In Tokyo, however, their ambitions are still thwarted by the strict separation of banking from securities business laid down by Article 65 of the Securities and Exchange Law — legislation modelled deliberately on the US Glass-Steagall Act.

Some bankers now call openly for the repeal of the article, and for the abolition of all the barriers behind which — as the banks choose to see the matter — the securities houses have grown rapidly in recent years to world-class size and staggering profitability.

"The legislation was introduced to protect the securities industry in its infancy," says Mr Junichi Nishiwaki, general manager for economic research at Mitsubishi Bank. "No-one can say that it needs that protection any longer."

Battle between banks and securities houses has already been joined over such novelties as a proposed Tokyo commercial paper market and the mooted introduction of stock index futures trading.

For their part, the securities houses are keen to win a share of the huge and rapidly growing Tokyo foreign exchange market, now the world's leading centre for yen-dollar transactions. They are also impatient to see the abolition of the commissioned bank system (entailing the arrangement of collateral for bonds issued in Japan), which they argue is one of the factors hindering the return to Tokyo of bond underwriting business now handled offshore.

Yet this is not the only front on which the banks feel compelled to defend themselves vigorously. An equally radical change in traditional patterns awaits them with the implementation of the final stages of the MoF's programme to abolish interest rate controls.

Starting just under two years ago, the MoF deregulated interest rates on deposits of Y1bn or more. A year later this was reduced to Y500m, then to Y300m. At a date still to be announced later this spring, the figure will be cut again to Y100m (£430,000). Rates on money-market certificates and on negotiable certificates of deposit have also been substantially, though not yet entirely, deregulated.

According to the Federation of Bankers' Association of Japan, a total of 13.6 per cent of the 13 city banks' funding came from these various deregulated sources in the six months to last September, a proportion that has been growing steadily. While the minimum size for a deregulated deposit remains well beyond the reach of most private customers, few bankers in Tokyo doubt that, in due course, foreign and domestic pressure on the MoF will see the threshold reduced again and eventually removed altogether.

There is less agreement on who would be the winners and losers in the ensuing competition for savers' funds. Japanese banks are coming reluctantly to accept that the 80 per cent or more of deposits which they now derive at low interest rates from private customers will be opened up increasingly to competition from other deposit-takers and investment outlets.

The city banks, with their enormous deposit base and their strong links with corporate customers, are not expected to be the immediate sufferers. Japan's numerous regional and mutual banks, still denied the right to conduct the full range of business open to the city banks, could well experience some thinning out of the ranks over the next few years.

A precedent may have been set by Sumitomo Bank's absorption last year of Heiwa Sogo, a troubled second-tier institution. Mr Akira Ota, of Sumitomo's planning department, sees this move as a strong underpinning of its future strategy of increasing its service to retail and small business customers. At a stroke, the Osaka-based bank was able to increase its branch network by around 100 from the 200 limit imposed on the city banks by the MoF, and to add to its presence the Tokyo region.

Besides the prospect of more expensive funding in the future, Japanese banks also face a dimly-perceived, yet potentially costly pressure from the moves now under way on the part of foreign banking regulators for greater comparability of capital adequacy ratios between banks in the main industrial countries. So far, the US-UK agreement on the subject is a purely bilateral one, but MoF officials stress their keen interest in steering Japanese banks into line over a period of years.

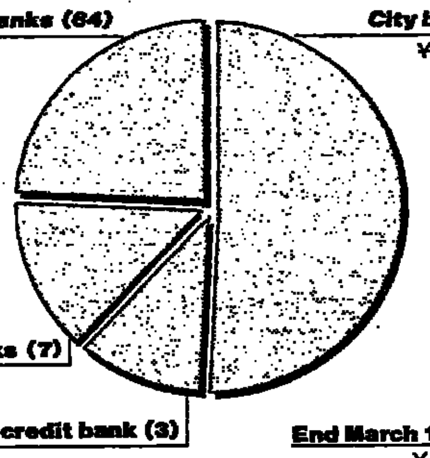
This will oblige the banks either to raise very large sums of additional equity (which one or two have begun to do already) or else to accept a formal valuation of their huge "submerged" holdings of securities on their own books. According to financial consultants in Tokyo, valuation of these at 70 per cent of market value would transform the capital-to-liabilities ratio of one city bank from under 3 per cent to between 8 and 9 per cent.

Adrian Dicks

Tokyo foreign exchange dealers in action ... Securities houses would like to win a share of the growing market.

Bank deposits

Including CDs



Source: Federation of Bankers' Associations of Japan

GROWTH OF DEREGULATED FUNDS (Yen bn)

	Mar 85	Sep 85	Mar 86	Sep 86
Total deposits of City banks	118,818	123,113	130,642	136,714
CDs	4,837	5,478	5,582	5,379
MMCs*	—	1,643	3,021	3,987
Large deposits	—	—	3,207	9,205
Deregulated rate funds as percentage of total deposits	4.1	5.8	9.0	13.6

* Money market certificates.

Source: Federation of Bankers' Association of Japan

Short-term markets

Commercial paper market on the way

PROBABLY THE most acrimonious debates on the liberalisation of Japan's financial markets have been over the short-term money markets.

Last September, Mr David Mulford, the US Assistant Secretary of State, complained bitterly that the momentum for liberalisation, so strong two years earlier, had been lost. Several European governments have been making vigorous representations to the Japanese authorities as well.

On paper, the process of deregulation of Japan's short-term money markets has been rapid and substantial since the comprehensive report of the joint Japan-US ad hoc group on yen-dollar exchange rate, financial and capital issues (then yen-dollar committee) in May 1984.

Regulations on conversion of foreign funds into yen have been abolished and restrictions on Euroyen transactions by domestic banks lifted. The floor on large time deposits which can seek market interest rates, which stood at Y1bn in October 1985 was lowered last year to Y300m and is set to go down to Y100m this spring.

Denomination sizes of money market certificates (MMCs) have been steadily reduced, a bankers' acceptances market has been introduced and restrictions on certificates of deposit (CDs) have been eased. Also, the government last year began issuing short-term government bonds or Treasury bills.

The volume of transactions in the interbank and other short-term markets has grown rapidly in the past two years. The aggregate average balances in the call, discount, CD and Gensaki (bond repurchase agreements) markets grew from Y23,800bn in 1984 to Y40,000bn last October.

Yet these and other short-term money markets are still the preserve of sophisticated investors, and activity is slight compared with that in the US. For example, the amount of Treasury bills in circulation in Japan is only Y2,000bn ($13.3bn) compared with nearly $400bn in the US.

Moreover, about 70 to 80 per cent of deposits in Japan are still covered by fixed interest rates. There is also still some potential for a wider selection of products. For example, the Government has not yet permitted the establishment of a commercial paper market yet.

There is no mystery about the reasons for the delays in the deregulation process. Deregulation brings with it higher interest rates than those fixed by the Government. As the Government itself is a large borrower, it would suffer considerably if it had to pay more for its money.

Perhaps more important, the control on small denomination deposits has been the lifeline of the commercial, regional and savings banks.

If they were suddenly obliged to pay retail depositors market rates, their margins would be severely squeezed. Some of the smaller banks undoubtedly would be in difficulty, and some restructuring in the industry would have to take place.

Despite the obstacles, there is no doubt that the process of liberalisation will continue. Government leaders have repeatedly committed themselves to the goal of totally free financial markets. The Bank of Japan has also put its weight solidly behind the liberalisation process, recognising that its ability to influence interest rates would be improved if the short-term money markets were more liquid.

Also, the ability of the authorities to stop the liberalisation process probably declines with each forward step. For example, last year, in an attempt to ease the upward pressure on the yen, the Government allowed large institutional investors to place a larger proportion of their portfolios abroad.

That means there will be greater yen balances abroad, which will be traded at market rates, thus putting greater pressure on domestic money markets to align with them.

However, as Mr Mulford and others have observed, the process is now reaching the point where any change will have a potentially large impact on some of the institutions involved, and so the resistance to change is becoming more substantial.

The next scheduled development is a further easing of MMC issuing conditions and a reduction in their minimum denomination. When MMCs were introduced in April 1985, banks would issue them only to the extent of 150 per cent of their net worth and the smallest denomination was Y50m. Last year, the net worth restraint was eased to 250 per cent and the minimum denomination lowered to Y30m.

According to Ministry of Finance officials, the minimum denomination will probably go down to Y20m in May. That is still a bit too high to compete with bank or postal savings accounts, but it is getting close.

Similarly, the liberalisation of conditions on certificates of deposit continues. Yen CDs were first introduced in 1979 with a minimum denomination of Y500m, a ceiling of 100 per cent of net worth on the amount any bank could issue and a limited range of maturities. Last year, the net worth requirement was reduced to 250 per cent and the minmum denomination, now at Y100m, could be lowered to Y50m.

It seems likely that restrictions will be eliminated altogether only in the context of overall negotiations on interest rates on small deposits. That will be a very difficult process, not only because of the dependence of the banks on low interest deposits but also because of the huge postal savings system.

The Post Office today has about Y100,000bn on deposit, one-third of the national total of savings. Unless it is obliged to liberalise its interest rates in step with those of the banks, it will have a significant competitive advantage. Talks between the ministry and the Post Office are under way, but are delicate.

The other obstacle to the popularity of some short-term money markets is government tax policy. For example, Treasury bills are subject to withholding tax, so foreign investors have eschewed them.

Bankers' acceptances, introduced with considerable fanfare in June 1985, have flopped because they are subject to a stamp duty. Analysts are not optimistic about the prospects for the Finance Ministry retreating from any source of tax revenue.

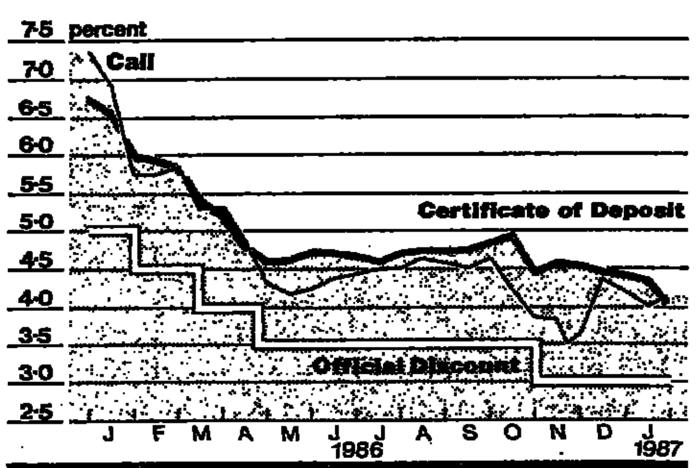
The next big battle is likely to be over the establishment of a commercial paper market. Securities dealers and industrial companies are eager for it to be set up, but the banks are resisting it as another market that will draw customers away from bank lending.

As in other liberalisation questions, the authorities are trying to proceed on a step by step basis. Two years ago, the Ministry allowed Japanese banks and brokers to deal in foreign commercial paper. Also, a few large Japanese companies have become issuers of CP both in the US and Europe. Last November, the MoF authorised banks to underwrite and make markets in CP in the Euromarkets and last month the Bank of Japan published its views on how an eventual Tokyo market should be structured.

The most important of these is that CP certificates should be defined as notes, so as to facilitate issuing procedures and enable banks to participate. The central bank also says that issuing companies should be required to pass credit ratings. The best guess is that a CP market will be up and running in mid-1988.

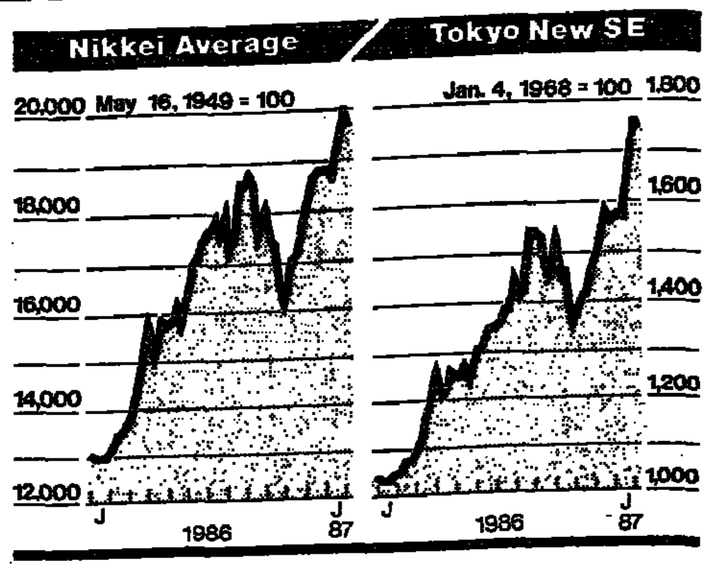
Ian Rodger

Interest rate movements



The Stock Exchange

Still only six foreign members



FOREIGNERS ARE a problem that the Tokyo Stock Exchange could well do without, as it struggles to cope with booming levels of business. Its "try again next year" message to would-be foreign member firms has not gone down at all well.

The London and New York exchanges have now thrown their doors wide open to international securities firms. But Tokyo remains a tightly controlled club of the more conservative sort.

While the Ministry of Finance was being niggardly in handing out securities licences to overseas firms the resistance by the exchange scarcely mattered. But with the transformation in the MoF's attitude the posture of the Tokyo exchange is all the more embarrassing.

The exchange blames lack of space. It says there is no room on the trading floor for representatives of new member firms until it has managed to put more of its listed stocks on to a computerised trading basis. That could take until the spring of 1988.

But it is more than a year since the exchange made its last gesture towards liberalisation, by letting in a group of 10 firms, including the first six overseas members.

The six were chosen partly for their standing in the securities business and partly because of political pressure to placate the British and American governments, which have been fuming over the lack of reciprocal treatment for their national firms in Tokyo.

The unlucky candidates were far from pleased, and have been frustrated by the lack of progress since then. In mid-January the president of Salomon Brothers from New York, Mr Thomas Strauss, thundered through Tokyo, complaining loudly.

"The Tokyo Stock Exchange must open its doors to foreign firms," he said. "We view exchange membership as a cornerstone of our business."

It was indicated to him that a single-digit number of new members might be admitted in 1988. Seven, for instance, would neatly take the membership up to 100. But the exchange refuses to go on the record with any particular figure. And there would not be any guarantee that seats would go to foreign firms rather than the various Japanese securities houses which might also like to be members.

"We have just said that we plan to review the position again," says Mr Mitsui Sato, a managing director of the exchange. He denies that the exchange is being obstructive. "Any stock exchange wants to attract business to it," he says.

Stock exchange membership is by no means essential in order to carry on securities business in Japan, but it does bestow significant advantages on securities houses with sufficient volumes of business to afford the initial fee (the last seat changed hands at Y1.1bn or $7.3m) and carry the extra overheads subsequently required, such as for floor personnel.

The most obvious penalty of non-membership is that business has to be passed through a member firm, which will deduct 27 per cent of the commission. "We are a wonderful customer of our biggest competitors," says a rueful Mr Deryck Maughan, Salomon's Tokyo managing director.

And sheer status counts for a lot, too. One floor above Salomon, in a brand new office tower, Goldman Sach's Tokyo president, Mr Eugene Atkinson, emphasises the benefits his firm's seat has brought.

"It is more valuable than I would have imagined," he says. "Investors like to deal with somebody who is really part of the market."

Foreign securities executives also note that it is easier to recruit high-quality staff to a member firm. All the same, Salomon claims that it does more business in Japanese equities, as a non-member, than all but Morgan Stanley and Jardine Fleming of the six foreign member firms.

Meanwhile, deregulation around the world is creating other pressures on the Tokyo exchange. It is now the only one of the world's three major stock markets to operate a fixed scale of commissions. With the growth of the global market-place, it is open to question whether Tokyo can continue for much longer to consider its practices in isolation.

Naturally the Japanese securities houses are resisting the idea of introducing negotiated commissions. They conceded a 30-40 per cent cut in commissions on the largest equity transactions last October, and a similar move for convertibles will be implemented within the near future. But there seems to be no competitive pressure on the Japanese houses' lucrative retail commissions.

The growing institutionalisation of the securities markets in Japan is nevertheless likely to lead to the same trend towards commission deregulation that has been seen in New York and London. The Japanese institutions can see the size of the profits being earned by the big four securities houses, and are likely to seek further adjustments.

And the growth of overseas trading in Japanese equities could pose an increasing challenge. Already a number of leading stocks are traded on SEAQ International in London and in ADR (American Depositary Receipt) form in New York.

These markets could become more attractive for, at any rate, smaller institutional investors, although they obviously lack the huge liquidity of the main Tokyo market.

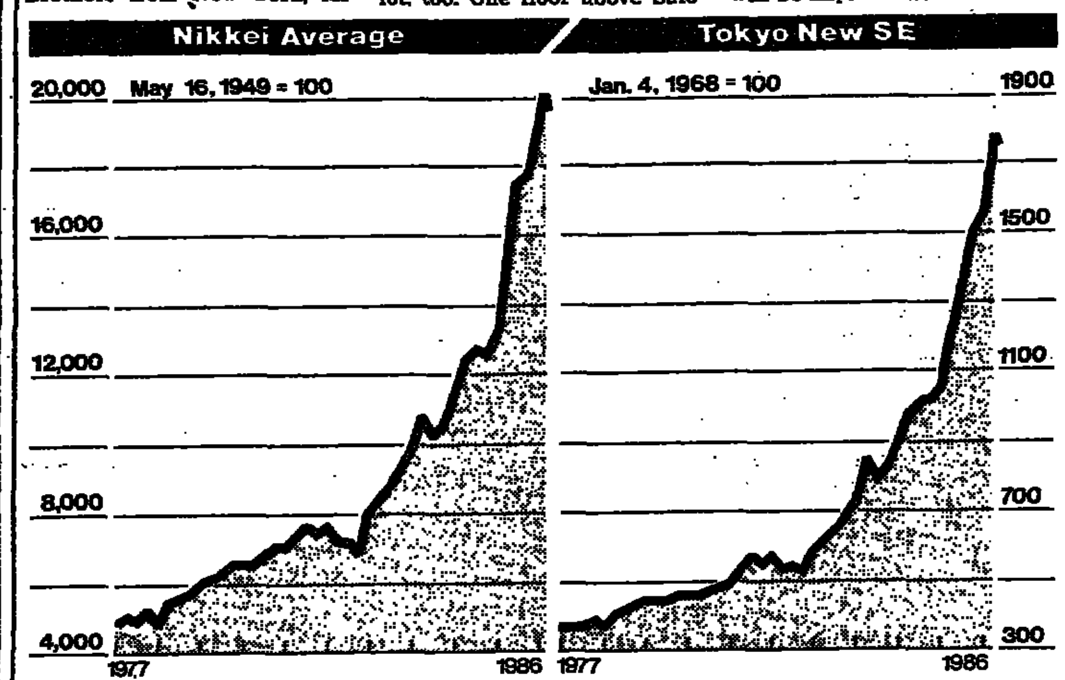
There are widely differing views on the volume of business being done outside Japan. According to Mr Katsuhiko Fujimoto, a director of Daiwa Securities, transactions in London and New York "are still negligible." But Mr Tim Ferguson, branch manager of County Securities in Tokyo, claims that 10 per cent would be "a conservative figure" for the proportion of Japanese equity transactions off the Tokyo exchange.

At the exchange itself, Mr Sato does not consider there is any substantial trading of Tokyo stocks outside Japan, with the exception of a few special issues.

He does not see any reason at present why the exchange should consider moving over to negotiated commissions. The firmly held official view is that fixed commissions aid stability, and the exchange is concerned to protect its more vulnerable small and medium-sized member firms.

Mr Sato accepts that the exchange must apply the commission scales flexibly, for example reducing them when the securities companies are making exceptionally high profits, as they have been recently. But he insists: "Fixed commissions are best suited to Japanese conditions."

Barry Riley



Saleswomen

A gentle remedy for a fear of bonds

PERHAPS ONLY in Japan has a national budget deficit furthered the cause of women's liberation.

When the Government started issuing deficit financing bonds on a large scale in the early 1970s, securities companies began to relax their men-only rule on door-to-door sales, in order to quell the fears that investing in a "risky" instrument like bonds aroused.

According to Mrs Midori Shimizu, deputy manager of the smaller of Yamaichi Securities' two branches in the Shibuya area of Tokyo, "securities houses felt they needed the 'soft touch' to inspire public confidence".

Since then, women have continued to expand their sales presence, both behind the counter and on the road. Last year, Yamaichi's saleswomen totalled almost 2,500 and men nearly 3,000. A major difference is, however, that the majority of men are "full-time" and most of the women "part-time", a description that relates to security of tenure rather than to the number of working hours. Yamaichi plans to increase the ranks of part-time women, who work for a small basic salary and commission, from just under 2,000 in 1986 to 4,000 by the end of the decade.

Risk, having given them their jobs in the first place, acts as a constraint to their activities, since they are allowed to market only bonds and investment trust funds: stocks are left to the mainly-male and more extensively trained full-timers, although the women have been known to handle clients' buy and sell orders.

Their average age has dropped sharply since the early days. Mrs Shimizu, who two years ago became one of only 22 females in Yamaichi to have full equality with male colleagues in pay and conditions, said, "Most part-timers used to be in their 50s and 60s, having returned to the workforce after bringing up their children. Now, most are in their 30s, 40s or even 20s, since youth is able to master more quickly the intricacies of the constant stream of new products and investment packages competing for funds." They have to pass a special Japan Securities Dealers Association examination to be recruited, and then undergo two weeks' training at head office and the branch to which they will be attached.

Mrs Shimizu ... "mother-in-law will help"

The vivacious Mrs Shimizu, 35, is particularly rare as she is one of only two women to hold a position of equality in the company and be married. Moreover, the fact that her formal education ended when she left upper secondary school at the age of 18 has not held her back, even though female university graduates often end up pouring tea for a living in Japan.

Now she faces the possibility of a transfer either within Japan or overseas at some point. Postings are never a matter of choice here: the company has the only word. However, Mrs Shimizu is not worried about the prospect of leaving her husband and six-year-old daughter in the care of her mother-in-law. "My husband supports me in my professional life and my mother-in-law, who lives with me anyway, is happy to help out as long as I pursue a career seriously and do not work for fun."

Whereas most women part-timers look after female customers principally, Mrs Shimizu's client list includes men, women and corporations. Most are within a two-kilometre radius of the branch in the affluent shopping and residentiial district of Shibuya.

At the moment, she estimates women account for about 40 per cent of individual clients and are gaining. As personal financial resources have swollen in line with the country's economy, housewives, who have controlled the family budget ever since the last war, have found themselves with more funds to manage. Some of these funds are known to their husbands, some are deposited in his name for tax purposes, and some are siphoned off into their "drawer" savings.

Women used to go for the safety of bank deposits or postal savings accounts, but they are now turning more to higher yield, zaiteku (financial engineering) products to increase their returns. Since corporate-bound "salarymen" have no time to deal with such questions, their wives are learning about bulls and bears and have to make decisions on complicated hybrid products.

However, they still prefer to stick to the minimum-risk government bonds on the whole. They react more emotionally to losses than men, and are both less logical and less knowledgeable about markets and the economy, says Mrs Shimizu. "But although women still ask elementary questions, they have made progress over the past couple of years," she adds.

They have been helped by wide magazine coverage of personal finance and zaiteku, and are now developing an interest in stocks. Furthermore, once she has built up trust with female clients, her advice is always followed, whereas men often listen attentively and do the opposite, concludes Mrs Shimizu.

Barbara Casassus

Foreign banks

No room for error once the limits go

AMONG THE growing club of foreign bankers in Tokyo (nearly 80 institutions at the end of 1986), it is doubtful whether any two share exactly the same analysis of the Japanese banking market, or the same ambitions for their own place in the country's rapidly changing international financial services business.

Some of the representatives of the longest-established institutions still seem slightly disbelieving of the pace and extent of financial liberalisation in the few years since the Reagan administration turned up the heat through the Yen-dollar Committee. The more lately-come foreign banks, themselves beneficiaries of that same process, seem sometimes to take the sweeping changes of recent years too much for granted.

For the old hands, Tokyo remains a market unlike any other, where foreign banks—still enjoying as a group only a paltry 3 per cent of total deposits—have traditionally been able to thrive only in such niche businesses as foreign currency lending, foreign exchange and trade finance. To the newcomers, unmarked by their rivals' long and sometimes bitter experience of life on the fringes of the Japanese financial world, Tokyo offers boundless opportunity—well of the world's biggest source of investment funds, and home to hundreds of its most powerful industrial companies.

One point on which all would doubtless agree is that, once the remaining regulatory and legal obstacles in the banking market are removed, there is likely to be little room left for error. "I would estimate that there will be at most 15 survivors among the foreign banks," says Mr Tony Hodge, general manager in Japan of National Westminster of the UK.

NatWest's approach to the market is to build up a presence in Japan comparable with what it can offer in Europe and in other important centres. It reckons to have 45 per cent of the UK business of Japanese companies, not counting that handled by Japanese banks, and it feels a strong commitment to world-wide service to Japanese customers, as to others. That means building up long-term lending relationships—a process that Mr Hodge says is slow but not impossible. "We think Japanese customers are looking for banks that can be universal partners. They are likely to deal with the niche players only in the short term."

For a contrasting view, Mr Robert Binney, general manager in Tokyo for Chase Manhattan, says that for foreign banks, Japanese business will always be a series of niche businesses. Chase, one of the first foreign banks to establish itself in the post-war era, has long had a much-envied niche of its own—the Tokyo clearing function for all dollar payments. It enjoys a large global custody business for yen instruments and also claims to be the largest single operator among the foreign banks in the yen-dollar foreign exchange market.

For the future, Chase is one of only three foreign banks to have won a securities licence in Tokyo, and will build this business up in conjunction with its investment banking business. It is also one of a small number of institutions to have applied for (successfully) a Japanese trust banking licence, enabling it to handle part of the huge pool of pension fund money now allowed to be invested in non-Japanese bonds, shares and other instruments.

Barclays of the UK has also taken out a trust banking licence, the only European Community-based bank to apply for one. Mr Chris Martin, the bank's general manager in Tokyo, expresses satisfaction at the first few months of this business, in which Barclays has joined up with Toyo Trust in what it calls a very fruitful co-operation agreement.

Paribas, the recently privatised French investment bank, lays strong emphasis on what Mr Remy Caillaux, its chief in Japan, calls the provision of value added—"which is easier to supply in a less-than-perfect market. In a perfect market in Japan, only muscle power would count." Paribas has been a leading force in the booming market for currency swap-driven Euroyen bonds, and claims the honour of having launched the first currency-hedged issue on the Euromarkets (for Japan Development Bank) in 1981.

Mr Paul Hofer, head of Credit Suisse in Japan and current chairman of the foreign bankers' association in Tokyo, is a firm believer in the dismantling of the remaining obstacles to a free market—although Credit Suisse itself has long enjoyed a comfortable place in the highly specialised business of bringing convertible bond issues for Japanese companies in the Swiss foreign bond market, a practice the MoF would dearly like to see return to Tokyo.

As Mr Hofer identifies them, the big unresolved issues in the Japanese banking market are: the need to sweep away the remaining controls on interest rates, and the need to strengthen the mechanisms of the money market. Although none of the control that remains is specifically directed at foreign banks, the effect of all of them is to put the foreign banks at a relative disadvantage in terms of their funding costs.

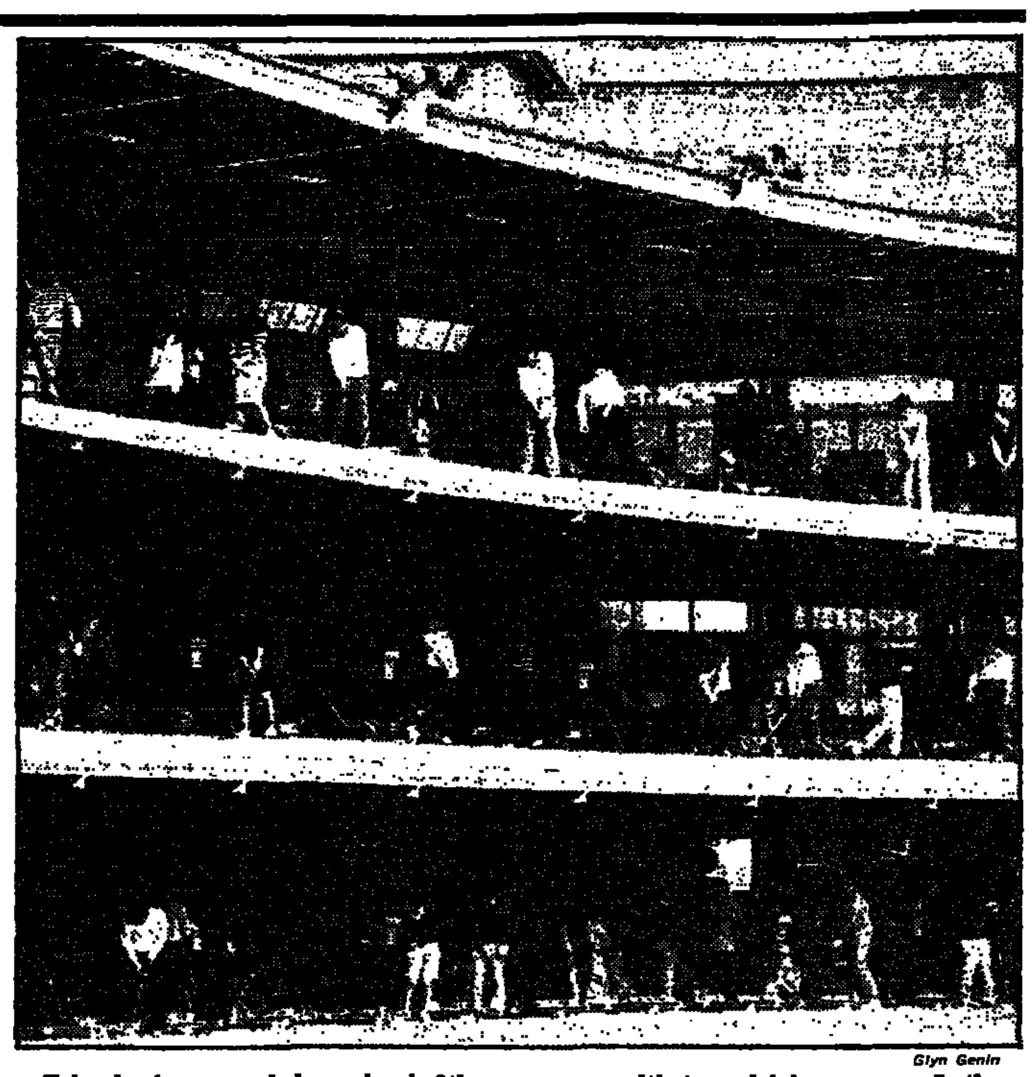
Given better access to the Bank of Japan's rediscount window, more efficient brokerage in the interbank market, a fatter slice of the Japanese government bond market and less cumbersome reporting requirements, foreign bankers would agree that the playing field would be something much closer to level. Mr Hofer would also welcome greater scope to deal in precious metals.

Yet all this leaves out what virtually every foreign banker stresses is a crucial issue—personnel. If there is one factor that could make an irrelevancy out of even the most perfectly level regulatory playing field, it is the looming shortage of qualified Japanese or Japanese-speaking staff. "Personnel, not deregulation, is the real issue for foreign banks in Japan," says Mr Hofer. "Can we train, and then manage, Japanese staff?"

"You have to remember that it is a relatively new phenomenon for Japanese to join foreign firms and banks," says Mr Caillaux of Paribas. "We have spent a lot of time on recruiting and on creating an environment in which they feel comfortable. We hope we can be better than our rivals not just in integrating Japanese staff into our culture but in helping the Japanese to integrate better into the rest of the world. We are looking for people we can train to fit into our operations anywhere in the world."

Mr Martin, at Barclays, walking through a dealing room where only one or two members of the staff are non-Japanese and scarcely more than that over their early 30s, believes there will be an enormous harvest to be reaped by those foreign institutions willing to make the commitment to build up staff and business. "The problem in Japan is not the authorities; we have always found them to be understanding and co-operative. The problem is that Japan has not been sufficiently tried."

Adrian Dicks



Glyn Genin

Tokyo business people keep ahead of the game on a multi-storey driving range ... In the banking league, foreign players do not underestimate the competition

The offshore market

Banks see need to cut tax rates

IN THE two-and-a-half months since it opened for business, the most striking feature of the new Japan offshore market (JOM) has been the unanimity with which Japanese and foreign banks alike have been expressing their disappointment at its development to date.

The process of lobbying for further liberalisation of the new market's terms started even before its launch, and has been steadily gathering momentum.

Yet senior Japanese bankers who backed the creation of JOM, together with Government officials who have pushed it steadily off the slipway, take a more relaxed attitude. The Ministry of Finance takes the view that once the JOM proves itself useful and effective within the limited range of functions assigned to it in the first phase, the time will be ripe to consider lifting some of the remaining constraints which irk the banking community.

By January, 181 banks had opened JOM accounts, initially transferring some $55bn into them. The biggest contributors appear to have been the Japanese city (commercial) banks, though Mr Yusuke Kashiwagi, chairman of the Bank of Tokyo and a long-term supporter of the creation of the JOM, says that Japanese regional banks have also been active. At the end of December, when the market had been operating for a month, total assets stood at $93.7bn, slightly ahead of earlier forecasts, according to figures published by the Ministry of Finance.

The rules of the JOM are modelled more closely on those of the New York international banking facility—emphasing "out-out" transactions that cannot affect the banking system of the host country—than on the London-based Euromarkets, which in most relevant respects now function under the UK domestic regulatory umbrella.

Japanese residents cannot hold JOM accounts. Japan-based financial institutions, whether Japanese or foreign-owned, must keep their daily movements of funds between domestic and JOM accounts within a margin of 5 per cent of the volume of the JOM accounts average operating balance in the previous month. At the end of each month, there must be no net monthly inflow from domestic accounts into JOM accounts.

Funds deposited from outside Japan into JOM accounts may come in any currency. However, they can be held only on short-term deposit and cannot be used to purchase Japanese securities, certificates of deposit or other negotiable instruments. Transactions have to be completed on the same day, further reducing the possibilities of using the JOM for currency arbitrage.

As if all this were not enough to make prospective users of the market think twice, JOM transactions are also subject to Japanese domestic stamp duty and taxes of about 20 per cent.

So who does use the JOM, and why?

One of the MoF's original purposes in setting up the offshore market was to broaden the international experience and extend the funding base of Japanese regional banks and other second-tier financial institutions. No figures are yet available, but Japanese bankers say this has indeed been happening.

The regional banks have not been slow to seize the opportunities offered to them, and are reported to have been busily taking in offshore deposits from customers abroad with whom they had little previous contact.

Under JOM rules, these funds cannot be put to use in the Japanese domestic business of the accepting institution, but they are available tofund lending outside Japan. Several loan deals have already been put together in which Japanese regional banks have subscribed on the basis of funds deposited in their offshore facilities.

In two syndicated dollar loans put together by Bank of Tokyo for Thailand and Indonesia since the JOM was set up, Japanese mutual banks, regional banks and credit unions put up contributions funded from their dollar deposits in offshore accounts. The two deals each carry floating interest rates based on London Interbank Offered Rate for three or six month eurodollars as a protection for the lenders against sudden movements in their cost of funds. Innovative though this business is, however, it falls well short of a fully operational offshore market such as London's or New York's.

"At the moment, we see it as an insurance policy," says the head of a big US bank's Tokyo office.

"The market has to develop a genuine offshore depositor base before it can take off," says one British banker in Tokyo. "The problem now is that the players are essentially the same as those onshore."

There seems to be general agreement among bankers in Tokyo that the first step to be taken to make the JOM attract more business should be the lowering of tax rates on the market. Removal of stamp duty would require legislative action, and hence would take both time and a firm political commitment. For the Japanese Government, already steering a complex tax reform package through the Diet, the fine-tuning of the JOM is unlikely to be a high priority.

According to Mr Kashiwagi of Bank of Tokyo, however, the Government could lower the rate of taxation on profits from JOM business through administrative action to lift local taxes now levied. This step would bring the JOM's tax regime closer to that of the New York IBF, in which US federal tax is charged while state and local taxes are not. However, it is not at all clear that it would be acceptable to the MoF's tax bureau.

Some foreign bankers remain sceptical about the depth of the Japanese authorities' commitment to the JOM, pointing to the earlier creation of a market in bankers' acceptances which has never taken off. According to this view, setting up the market, in each case, represents fulfilment of a portion of the US-Japanese agreement on financial liberalisation. Breathing life into it is another matter.

Adrian Dicks

Foreign securities houses

Graduates one answer to the staff problem

THE PREVAILING smell is of paint and newly-laid carpet, but Tokyo's foreign securities firms are rapidly establishing themselves. Only three foreign securities companies had received licences for branches in Japan by 1980, but since then the pace has been rapid.

Thirty-four branch representatives turned up at a recent meeting with the securities bureau of the Ministry of Finance, and there could easily be another 20 or more serious applications in the pipeline. The MoF grants new licences in half-yearly batches.

A dozen of the top US investment banks are licensed, and around the same number of British firms (though several of these are owned by American or European commercial banks). Elsewhere there is a group of five German bank offshoots, and a sprinkling of Swiss, French and Dutch contenders.

The foreigners range from Salomon Brothers, which has announced a proposed increase in paid-in capital to over Y50bn, or more than $300m (making it actually the fifth best-capitalised securities firm in the whole of Japan, after the domestic big four), to one or two European banks whose securities expertise is not of worldwide fame.

The British have arrived in force, because international investment has long been a British priority: but the expatriates who ran one-time investment listening posts have been surprised to find themselves in the middle of one of the hottest international capital markets in the world.

Now the Americans are flooding in, attracted by the potential business attached to the huge capital flows now leaving Japan. Some $130bn flowed out in 1986, and although the rise of the yen and other trade pressures on Japan may erode the surplus a little in future, nobody expects it to shrink substantially.

The best place to build up a capital-markets business is at the source of the capital. That is why the Japanese financial institutions shot up the Euromarket new-issue league tables last year, much to the annoyance of the Americans and the Europeans.

London can still hope to prosper as an *entrepôt* centre, but New York has been suffering as the big capital flows have come under the control of the Japanese.

For the leading US investment banks it has therefore become imperative to build a presence in all the three major world centres, New York, London and Tokyo, even though Tokyo has become a very expensive place in which to operate by the standards of the other two locations.

Though many are losing money, a few are managing to make ends meet. "Productivity per person is high," says Mr Eugene Atkinson, who heads the Tokyo branch of Goldman Sachs, now an affiliate of Sumitomo Bank which bought a small stake in the New York investment bank last year.

Office space is hard to find, and people still more so. "There are probably more headhunters here than anywhere else," says one securities branch head.

Numbers are exploding. Salomon Brothers' staff rose in number from 80 to almost 200 last year, while Goldman Sachs jumped from 53 to 170 and will top 250 by the end of this year. The British firms tend to be rather more cautious: Warburg has 120 people after being in Tokyo five years, and Jardine Fleming is at about the same level.

It is still difficult to recruit experienced staff from the Japanese securities industry, and the more farsighted foreign securities firms are now hiring new Japanese graduates (including Japanese with American MBA qualificiations). Warburg snapped up 12 out of 200 graduates who applied last year.

But many of the foreign securities houses suggest that it is much easier to hire Japanese staff than it was a few years ago when the foreigners' credibility was much less established.

Office space is hard to find, and people still more so. "There are probably more headhunters here than anywhere else," says one securities branch head.

Moreover, they are finding it easier to make contact with Japanese financial clients than a number of them had anticipated. "We have been encouraged by the amount of business we have been able to develop with Japanese companies," says Mr Hugh Trenchard, who heads Kleinwort Benson's Tokyo branch.

Kleinwort is one of the longer established foreign operations, having been around in one guise or another since 1970, and it was in the top 10 of the league table of Japanese convertible and equity warrant issues for 1986.

On the broking side, Mr Kenneth Lucas, of James Capel, finds Japanese institutional investors responsive to a western-style research-based service even in domestic equities. "The Japanese are very interested in the global view of their major stocks," he suggests.

But primarily, of course, the Japanese institutions are looking for a service in the foreign securities which they are holding in rapidly increasing volumes. Mr Tim Ferguson, branch manager of County Securities, notes that, "We are quite surprised at how keen domestic investors are to deal with foreign houses here."

In most other fields Japan is reckoned to be a very hard nut to crack, but its institutional investors are keen to open up the market.

Mr Shohei Yamada, international chief executive of Mitsui Trust and Banking, remarks that the institutions are more interested in price than patriotism. "We often use the foreign securities houses," he says. "Their presence contributes to a really competitive market in Japan."

Whether the foreign firms will continue to receive such a welcome in the longer term is not so certain. Japan's reputation for erecting informal barriers against outsiders has been a source of controversy in many other sectors.

The Japanese securities houses hint darkly that, in due course, they will snatch back their clients. "We like to see foreign houses come to Japan to educate our clients," says Mr Yasuo Kanzaki, executive vice-president of Nikko Securities. "They are helping us."

Certainly, some of the foreign firms are concerned that their home governments are giving away far too much to the Japanese houses, in terms of primary dealerships, banking licences or stock exchange memberships, before the Japanese have adequately reciprocated.

Protectionism may not prove to be the real long-term problem, however. The underlying challenge could well be that, once the Japanese securities houses, and some of the other domestic financial institutions, get their global acts together, they will prove to be formidable competitors.

Barry Riley

NET PURCHASES OF STOCKS (bn YEN)

	Foreigners	Japanese financial institutions
1984		
Q1	−199	167
Q2	−876	337
Q3	−246	205
Q4	−261	278
1985		
Q1	74	250
Q2	−442	457
Q3	−269	298
Q4	−413	114
1986		
Q1	164	251
Q2	−565	776
Q3	−2,136	983

FOREIGN SECURITIES DEALERS IN JAPAN

(according to 1985-86 pre-tax profits)

Company Year to:	Pre-tax profit Sept 84	Sept 85	Sept 86	employees Sept 86
Salomon Brothers	171	269	1,698	147
Jardine, Fleming	577	329	1,395	104
Merrill Lynch	(15)	428	552	311
Bache	237	(76)	493	47
Morgan Stanley	(90)	(61)	404	226
W. I. Carr	—	102	378	67
First Boston	—	(64)	345	94
S. G. Warburg	—	6	167	80
Vickers da Costa	310	82	165	174
Kidder, Peabody	(106)	33	67	45
Smith, Barney	14	7	38	57
Goldman, Sachs	(15)	4	(71)	114

Source: Nikkei Newsletter on Bond and Money

Postal savings

Concessions replace tax-exemption

THE IMPOSSIBLE is happening at Japan's government-controlled Postal Savings Service.

Less than a year ago, civil servants at the Ministry of Posts and Telecommuncations were vehemently opposed to any changes in the tax-exempt status enjoyed by savers at the Postal Savings Bank. After all, the Postal Savings was the largest single deposit-taker in Japan. If the tax-exemption was eliminated, they argued, savings would go down and the Ministry of Finance could find itself with significantly less funds to finance the national deficit.

Today, officials at MPT are singing a different tune. After months of political and bureaucratic haggling, the tax-exempt status of small deposits was thrown out the window as part of a sweeping overhaul of Japan's tax system presented to the Diet earlier this year. Although the tax-reform package has not yet been approved, its basic structure is expected to pass the Diet unscathed. As a result, the Postal Savings Bank is busily preparing for a new life.

Complaints have all but disappeared. Today, Postal Savings Bank officials talk of "new opportunities." They now recognise that the tax-exemption enjoyed by depositors of Y3m or less was seen to the outside world as subsidised savings. Japan is now under heavy pressure to save less and spend more, especially on imports. So concessions to savers had to go. But the Postal Savings Bank has been given some interesting new concessions in order to soften the blow. These opportunities, it believes, will allow it to continue to thrive.

"Our reaction is neutral. If we manage well, we can do well. This agreement only gives us the measures" by which the Postal Savings Bank can successfully change directions, says Mr Hiroyuki Osumi, director of International Service Division of the bank.

The most significant of these measures is the right to sell government bonds over-the-counter at any of its 23,000 offices and agencies throughout the country. Further, it will be able to extend loans to customers who use the bonds as collateral.

Of perhaps equal significance, however, is the bank's right to manage a portion of its funds itself. Under the agreement between the Government and the ruling Liberal Democratic Party on the Postal Savings tax-exemption system, a Postal Savings Financial Deregulation Fund is to be established. In fiscal 1987, the fund will be Y2,000bn, funded by a loan from the Ministry of Finance's Trust Fund Bureau against funds deposited by the Postal Savings. Half of this money will be earmarked for underwriting newly-issued government bonds, but the other half will be available for self-management.

Currently, the agreement restricts investment to government and municipal bonds, public corporate bonds, bank debentures, short-term deposits at financial institutions, principal guaranteed monetary trusts and designated corporate and foreign bonds. This fund will be expanded each year by Y500bn until 1991, when an estimated 10 per cent of the bank's total funds will be under internal management. The rest will continue to be under the control of the Ministry of Finance.

Despite these concessions, however, the bank will have a great deal of running to do just to stay in place. In the last year, for example, new money deposited in the postal savings bank hit the lowest point for more than a decade. Bank officials blame the drop on record low interest rates. Nonetheless, the government-controlled bank suffered more than commercial banks in the same year. According to government estimates, net gains in deposits at the Postal Savings plummeted by 82 per cent in 1986 to just over Y500bn, compared with Y2,900bn in 1985. Postal Savings officials expect net gains in deposits this year to be unchanged at Y500bn.

"For deposits, the climate is not favourable," says Mr Osumi. "This is true for anyone. But we are committed to providing services throughout the country, even the most remote areas. So we have to work hard at finding attractive services and keeping our costs down."

He points out that some sceptics say that the abolition of tax-exemption on small deposits will only encourage the thrifty Japanese to save more. "My personal guess is that savings will go down," he says. Already, however, he says the bank is planning to expand its automated-teller machine network, increase its marketing of its credit card service and, of course, make the most of its new ability to market government bonds and small loans.

Further, he points out that the maximum deposit amount for individual savers will be raised from the current Y3m to Y5m. Banking analysts expect that further concessions will be made to the bank once the trend on savings becomes clear.

"The services offered by the Postal Savings are very easily expandable," says Mr C. Tait Ratcliffe, president of International Business Information, a financial research organisation in Tokyo. "The bank is too important a source of funding for the Ministry of Finance to let its business decline significantly."

The Government may have to move more quickly than it had planned. According to Bank of Japan figures, individuals put four times as much money in investment trusts last year, while growth in bank deposits and postal savings together fell by nearly 30 per cent. Further, investors are becoming increasingly attracted to single premium (lump-sum) life insurance contracts which offer returns as high as 7 per cent.

The Post Office is expected to hold its growth steady at last year's levels, but is unwilling to estimate what will happen in 1988. Already, the Government has been careful not to offend securities companies and banks which sell bonds by setting various restrictions on sales. The sales of bonds by the Postal Bank, which will begin on October 1, will be restricted to Y5m a customer. This is aimed at preventing corporations from purchasing government securities from the Postal Bank and confining the sales to individuals. Also, the tax-exempt savings of the elderly and other protected groups will not be allowed for use to purchase bonds from the Postal Bank.

Further, government bonds' principal and interest may be paid into ordinary savings, but the Postal Bank may not create financial instruments combining fixed deposits and government debts. And currently, loans against government bonds will be limited to Y2m a customer.

The Postal Savings Bank, as a result, will be confronting a steep learning curve over the next 18 months.

Carla Rapoport

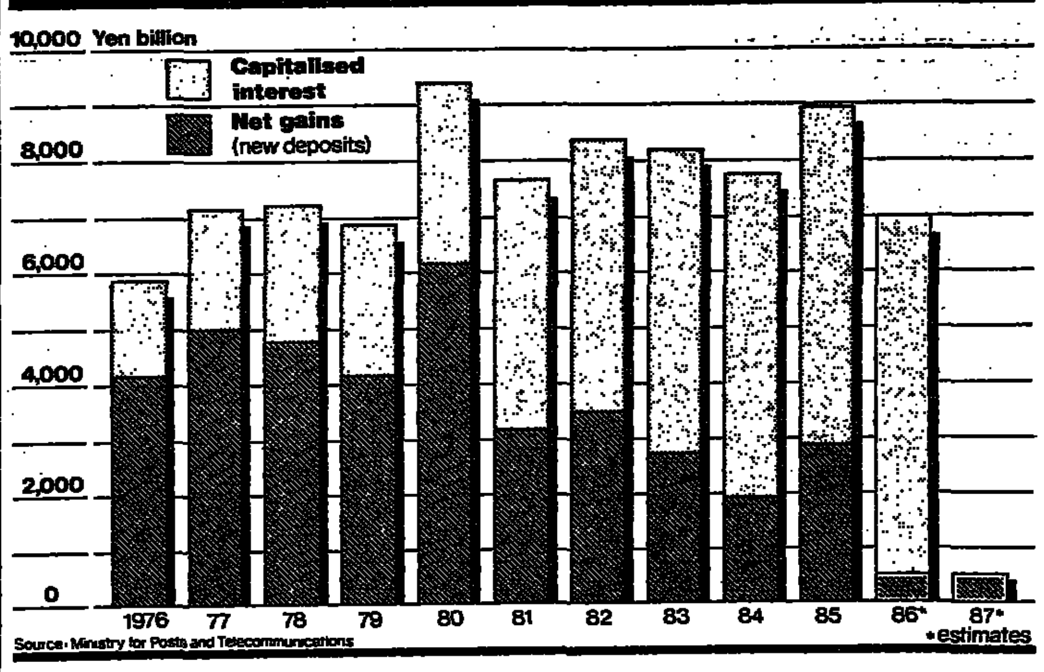
Ashley Ashwood

Save less, spend more, Japan is being urged . . . Pachinko, a minor national preoccupation, offers prizes such as dolls and packets of cigarettes.

PERSONAL SAVINGS: END 1985

Institutions	Yen bn	%
Postal savings system	100,086	32
City and regional banks	99,696	32
Agricultural and fishery co-operatives	40,474	13
Shinkin banks	36,717	12
Sogo banks	22,789	7
Credit co-operatives	9,561	3
Labour credit associations	4,783	2
Total	314,106	100

Source: Bank of Japan Monthly Report, April 1986



Retail banking

New mood suits the quick movers

TO A foreigner visiting Tokyo, retail banking services appear to be surprisingly backward. Vast amounts of money are still moved around by men on bicycles, cash-dispensing machines do not operate later than 7 pm, and cashing a travellers' cheque can often absorb the better part of an hour.

But Japan is not a consumer-oriented society. It is service-oriented. And service, in most cases, is given out only relative to the competition. Commercial banking is one of the oldest clubs in Japan, and also one of the most closely regulated. But as the regulations are slowly unwound, signs of healthy competition are emerging. For the consumer, this is good news. For the industry, it means serious challenges and change.

Almost all of Japan's many kinds of banks and banking co-operatives offer some kind of retail banking services. But the banks that offer the widest range of consumer services are the city banks. These banks, according to Japanese law, are prevented from engaging in the securities business. Japan has 13 city banks, ranging from a world-wide colossus like Sumitomo Bank to the little-known Hokkaido Takushoko Bank based in the north.

Until recently, the Ministry of Finance's regulation of the sector has been geared to the weakest member. For example, 24-hour automated teller machine service will not be allowed until every bank can afford to install the computer back-up needed to support it. Not surprisingly, as a result, many city banks are complaining that some recent financial liberalisations have hurt their business by letting other sorts of banks on to their formerly private turf. At the same time, however, the more aggressive banks are pushing into relatively underdeveloped areas, such as consumer finance, with surprising success.

As much as the Government would like to protect the smaller banks, it is already clear that those who are adapting best to the new liberalised environment are those which can move the quickest. Loans to consumers, for example, an area which was virtually a non-business 10 years ago, grew by a healthy 15.6 per cent in the year ended last June for the 13 city banks.

At Sumitomo Bank, however, consumer loans advanced by 36 per cent in the year ended last December. Sumitomo says it is the bank's fastest growing business sector. It also points out that its new consumer loans in 1986, totalling Y450bn, is twice the amount of loans the *Hokkaido Takushoko Bank has* handled in 50 years.

It is the sheer size of the big banks that allows them to plough into new businesses, according to analysts. The Government still maintains a ceiling on interest rates for consumer lending. "The current ceiling is not profitable for us," says Mr Nagao Hashimoto, manager of international affairs of the Federation of Banks Association of Japan.

Mr Hashimoto, of course, is speaking from the point of view of the entire banking community, which includes regional banks and co-ops. But according to Mr Hiroshi Watanabe, assistant manager of consumer finance at Sumitomo, consumer loans offer the best profitability ratio among today's very slim pickings. Corporate loans to large companies, which has been a declining business for the last few years, earn the bank a measly 0.253 per cent in net profit ratio, while consumer loans (mortgages plus personal loans) offer 1.136 per cent net profit. Personal loans alone give an average of 1.969 per cent.

Not surprisingly, the bigger banks like Sumitomo are falling all over themselves to package up loans for groups like students, new parents, and even high school students. "The general trend towards high savings will remain the same in Japan. Deposits will be high. But among young people, the resistance to borrowing money is breaking down," says Mr Watanabe.

The large banks are confident that they can lure new deposits with its special loan services and thus resist the increasing trend toward securitisation *among investors*. "You'll find companies with higher interest rates, such as trust banks and securities companies, are weaker on loans."

Because of this increasing split between the big city banks which can offer all the services and the smaller banks which can't, most analysts are expecting more mergers to take place within the sector. "Mergers will be the natural trend. It's fair to say we have too many banks in Japan. Theoretically, the numbers are too high, but politically, it will be hard to adjust to mergers and restructuring quickly," says Mr Hashimoto.

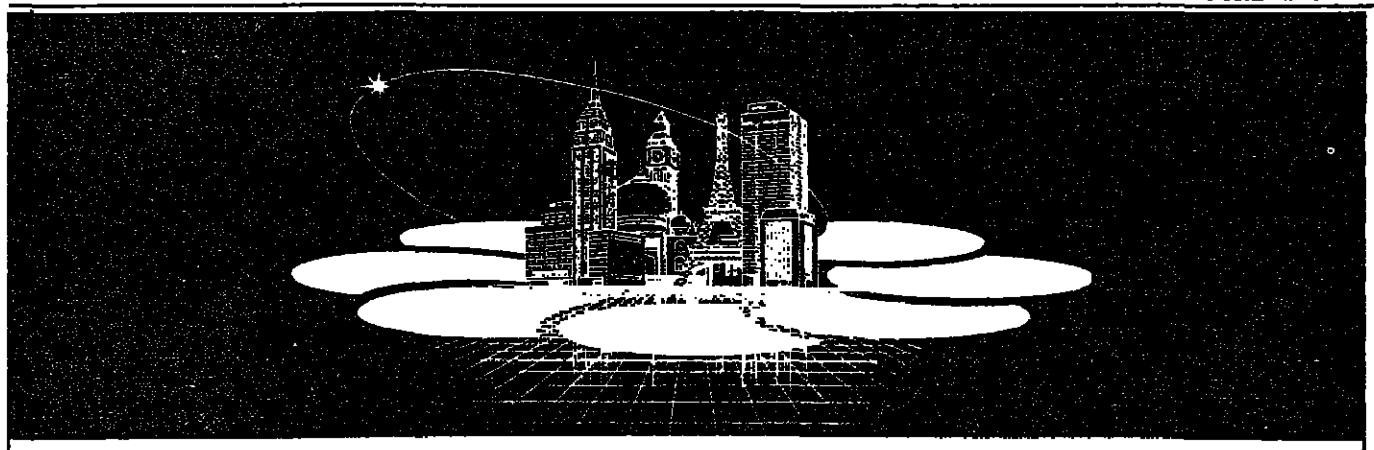
In order to level the playing field, bankers are seeking a number of changes, either further liberalisations or changes to those which have already caused more harm than good. The banks argue, among other things:

- The Postal Savings Bank still has an unfair advantage over city banks, despite the abolition of tax-exempt status for small savers. For example, the Postal Bank, which is government-controlled, does not need to pay deposit insurance, stamp duty, property taxes or regional or local taxes. Nonetheless, it will soon be allowed to sell government bonds over-the-counter.
- Credit Cards: banks are prohibited from issuing credit cards which operate on the deferred payment plan, but only immediate payment system like the American Express card. As the Japanese prefer the instalment cards, banks had issued only 26m cards out of a total 87m in circulation at the end of 1985.
- Interest ceiling on consumer credit should be lifted from its current 15 per cent. "Right now it sounds good, considering the low discount rate, but who knows where the discount rate will be in three or five years?" said a banker recently.

Further, the banks complain about what they call the "neighbour's turf" problem. Recent liberalisations, they say, have acted to the benefit of the securities companies and long-term institutions. "Concerning the focus of the retail bank, we are at a disadvantage," says Mr Hashimoto.

No doubt, as the industry continues to lobby for change, the split between the big and small banks, however, is bound to continue.

Carla Rapoport



Japanese Banking and Finance 9

Mergers and acquisitions

The social climate starts to change

JAPAN HAS long been a hostile environment for those interested in mergers and acquisitions (M & A). Shares of most companies are tightly held by friendly banks and other institutional holders, and so contested takeovers and associated phenomena like greenmail are virtually unknown.

However, as in so many areas of Japan's financial life, change is in the air, and dozens of banks and securities houses are building up M & A departments in anticipation of rapid growth.

The first sign of change is the sudden surge of overseas acquisitions by Japanese companies. Until recently, Japanese companies preferred to establish operations overseas either through joint ventures or greenfield plants. But the phenomenal rise of the yen's value against the dollar has forced many to rethink their strategies.

For some, the high yen has made it urgent to shift part of their production abroad, in order to remain competitive. A takeover is a quick way of securing a manufacturing and marketing foothold overseas. For others, the yen's appreciation means that foreign companies suddenly look remarkably inexpensive.

Many Japanese companies, particularly in heavy industries, are trying to diversify into new areas of business with good growth potential, and the US has provided many takeover candidates, notably in high technology industries.

The generally high level of corporate liquidity has made many Japanese companies look on M & A as an alternative to investment in securities. Kirin Brewery, for example, has set aside Y20-Y30bn for prospective takeovers. Some Japanese corporations are even going into the debt markets to procure funds for M & A. For example, TDK corporation said the major part of the proceeds from its Y23bn Eurodollar bond issue last October was to be used for M & A.

Many US investment banks, such as Morgan Stanley, Drexel Burnham Lambert, First Boston, Merrill Lynch and Shearson Lehman Brother, have anticipated the potential and have moved M & A specialists to Japan and started holding M & A seminars in Tokyo.

Morgan Stanley claims to be the top matchmaker of Japanese and American companies, its biggest coup to date being the arrangement of Industrial Bank of Japan's purchase of the US primary dealer Aubrey Lanston last autumn. Executives of Japanese companies with good financial standing say they are being presented with two or three takeover propositions a week by US investment banks, Japanese commercial banks and securities houses.

According to some US bankers, the Japanese were timid at first, but have become increasingly bold, as has been shown by Dainippon Ink/Chemical's purchase of the graphics division of Sun Chemical for $560m last summer, and Fujitsu's bid last October of an estimated $225m for Fairchild Semiconductor. But the emphasis is still on friendly takeovers. "Friendly takeovers are very efficient. Why should companies have to go for hostile takeovers?" a Daiwa Securities official says.

The four major Japanese securities houses, Yamaichi, Daiwa, Nikko and Nomura, have all set up M & A divisions and claim to have several deals pending. Yamaichi says: "We have in our files over 2,000 [foreign] companies that would be open to takeover or equity investment."

The long-term Credit Bank of Japan has taken a 20 per cent equity participation in Peers, an M & A intermediary company in the US, and is busy introducing US companies to would-be Japanese buyers. The LTCB says American companies for sale are sometimes too big in business scale for a would-be Japanese buyer, but often operations can be pruned and the company restructured so that the American company can fit Japanese needs.

Japanese trading houses, such as Mitsubishi and Mitsui, are also moving into M&A. Last month, Mitsubishi revealed a plan to set up M&A operations, both in Japan and the US, for Japanese customers. M&A business is expected to help Mitsubishi achieve its strategy of becoming a trading company that functions like an investment bank.

Mitsui, on the other hand, has been working for its own account. Through a business tie-up with Mervellic Management Corporation, an M&A company in Pittsburg, it carried out a leveraged buyout of a car component maker and a department store in the US. Mitsui has plans for more leveraged buyouts in the near future.

According to a recent survey conducted by Keidanren, the federation of economic associations, acquisitions of US companies by Japanese companies will continue to grow, regardless of the exchange rate. The survey indicated that, by the turn of the century, 54 per cent of Keidanren member companies are likely to have carried out some M&A activity, and one out of five would be getting more than half of their turnover from their overseas subsidiaries.

Meanwhile, in Japan itself, the M&A scene is still very quiet. Mergers and acquisitions tend to occur only as a last resort for a company in distress. The most prominent example last year was the takeover by Sumitomo Bank of Heiwa Sogo Bank. Acquisitions of Japanese companies for foreign groups is even more rare, the only large cases in recent years being the takeover of Osaka Sanso by Britain's BOC group in 1982 and that of Banyu Pharmaceutical by Merck of the US in 1983.

Apart from the social stigma, the large number of stable cross holdings of shares between banks and industrial companies has been a major practical deterrent to M&A within Japan. In some major corporations, stable shareholdings account for up to 60 per cent of the total outstanding.

However, the environment here too is changing. On the one hand, heavy industrial companies are having to sell off shares to cover operating losses. On the other, banks are coming up to the deadline this year, under the 1977 revised anti-trust law rules, requiring them to limit their ownership of domestic corporations to 5 per cent or less.

Already, it seems that out of the glare of national publicity there is considerable M&A activity in Japan. A study last autumn by Banque Paribas said that the number of mergers in Japan had reached an average of 1,000 deals a year, while non-equity transactions involving only a transfer of goodwill grew from 420 in 1975 to 815 in 1982.

The number of foreign takeovers has also been rising. According to one compilation, there were 15 acquisitions in Japan by foreign companies in the 1981-84 period compared with only five in the 1978-80 period.

Many analysts believe that the social stigma attached to selling out is gradually fading away, particularly in industries that are squeezed by flat demand and excess capacity, such as pharmaceuticals and chemicals. Also, large groups are beginning to dispose of subsidiaries because of changes in management strategy.

Yoko Shibata

Profile/Bank of Tokyo

A sense of purpose

THE BANK of Tokyo, designated in 1954 as Japan's specialist foreign exchange bank, is probably still the country's single best-known financial institution abroad. As a prominent player in the world's principal foreign exchange markets, a lead manager of securities issues in the euromarkets and an arranger of syndicated yen financings, its name is, for many people outside Japan, virtually synomonous with that of the nation.

From its early days, the bank built up a network of branches and offices to service and to finance Japan's rapidly growing foreign trade. It was almost alone among Japanese companies, too, in recognising the need to develop a body of managers with experience of the world abroad. It can claim that virtually every member of its board of directors has served overseas, with the average a startling 11 years of living and working outside Japan.

In recent years, the areas set aside for it by the foreign exchange bank law have become easier territory for rival institutions to enter, as Japan's financial liberalisation has gathered momentum.

Yet the Bank of Tokyo has retained all its traditional strengths, and indeed has been adding steadily to them. It has long been the bank's proud claim that it handles some 15 per cent of Japan's total foreign exchange transactions related to imports and exports.

At the height of February's foreign exchange market volatility, the Bank of Tokyo was handling about 10 per cent of total yen/dollar trading in the Tokyo foreign exchange market, according to Mr. Yusuke Kashiwagi, its chairman. Most experts in Tokyo estimated the volume of dealings between the two currencies during the period at $8bn-$10bn a day.

"There's no question about it, they are the people you have to look to in this market," says one foreign bank active in Tokyo foreign business.

"We are the largest receplent of yen from abroad," says Mr Kasuo Fujii, general manager of the bank's funds and foreign exchange division. He adds that most of the money that flowed into Tokyo banks across the exchanges last month found its way promptly into the bond and equity markets — areas of business from which the Bank of Tokyo, in common with other Japanese banks, is still debarred from operating within its home market.

Outside Japan, of course, that is far from being the case. The bank has been a leader for many years in the euromarkets business generated by Japanese companies. Althrough it did not rank among the top 20 in the overall eurobond lead management ratings in 1986 (which were dominated by the huge gains in market share achieved by other Japanese institutions), it characteristically broke new ground in important areas of the market.

It scored several firsts in the West German market, where Japanese banks have only recently begun to build up business, and continued to share in the thriving bond issuing business for Japanese companies in the Swiss market.

Most striking was the growth of the euroyen bond sector last year. The Bank of Tokyo served as lead manager for five, and co-lead for another six, of the 80 issues launched during the 1985-86 financial year to March.

The bank was a pioneer of the currency swap concept, which has provided much of the power behind Japanese corporate borrowers' activities in the euroyen market. It set up a special swap finance group to handle this rapidly growing business and broaden the client base from Japanese Government-related and company names to include foreign entities.

By extension, the bank has built on its swap market expertise to develop the use, through its overseas affiliates and branches, of overseas financial futures markets to hedge currency and interest-rate position. The Ministry of Finance is likely to rely heavily on the Bank of Tokyo's experience when it next formally considers the wisdom of permitting financial futures business to take place in Japan itself.

The bank has also long been a driving force in syndicated lending abroad by Japanese institutions, whether to sovereign borrowers during the 1970s and early 1980s, or to big projects such as Australia's North-west Shelf natural gas export project, in which Japanese trading companies and utilities are closely involved.

In the financial year ended last March, Bank of Tokyo acted as lead manager for a total of 89 syndicated loans in foreign currencies worth a total in dollar terms of $29.8bn. The bank's own dollar-denominated overseas loan business rose by 13.7 per cent (though it fell 18.8 per cent in yen terms because of the US currency's decline).

Mr Yusuke Kashiwagi, chairman: "We are the largest recipients of yen from abroad."

Bank of Tokyo lead managed 30 yen-denominated syndicated loans worth a total of Y537bn, and broke new ground both with the size of some its individual issues — notably the Y70bn raised for Thailand and the Y80bn arranged for Canada — and by constructing 20-year, transferable deals such as the Y30bn package for the world bank.

In addition to these eye-catching capital market and leading activities, the bank maintains a broad network of branches, subsidiaries and other affiliates throughout the world, providing financial services to Japanese clients.

The common thread is not merely a continuing, aggressive drive for new business which saw a 40.4 per cent jump in net income in the 1985-86 business year to Y47.2 bn from Y33.6bn the previous year, despite a virtual stagnation of assets at Y20,580bn. One of Bank of Tokyo's strengths is a sense of purpose; what Mr Kashiwagi calls,"A private bank with quasi-public responsibilities....striving to fulfil them by giving substance to the broad outlines of Japanese financial policies."

"We have to continue to export capital to where it is needed in the world," says Mr Kiyoshi Tsugawa, the director in charge of capital markets.

"We have to take up the burden of exporting the liquidity that has been created in Japan out of the savings of Japanese individuals and companies. If we can do that, we can take up the role we should have in international co-operation."

Adrian Dicks

BANK OF TOKYO: FINANCIAL HIGHLIGHTS

(year end March 31)

	Millions of Yen 1986	Millions of Yen 1985	Percent Change
Net Interest Income	177,834	194,834	−8.7%
Income before Income Taxes, Minority Interest, Amortisation of Goodwill and Equity	91,099	99,800	−8.7
Net Income	47,292	33,693	+40.4
Total Assets	20,580,147	20,561,513	+0.1%
Loans and Bills Discounted	9,312,956	9,498,942	−2.0
Securities	2,080,404	1,883,000	+10.5
Deposits	10,430,647	11,464,741	−9.0
Debentures	3,199,772	2,539,902	+25.7
Total Shareholders' Equity	401,609	325,064	+23.5

Profile/Mitsubishi Trust and Banking

Quiet shift of emphasis

TRUST BANKS have long played the role of plain Jane in Japan's highly segmented financial system, seldom attracting attention, seldom innovating.

But changing capital market trends and liberalisation have created new opportunities. Trust banks in Japan are responsible for taking money in trust and operating in the securities markets to employ their generally long-term assets in high-yield instruments.

In the current period of high corporate liquidity and low yields on conventional investment instruments, their services have been in great demand.

Trust banks also have the exclusive right in Japan to manage pension funds, which have become a growth sector in recent years as corporations have become more prosperous and the population's average age has risen.

Mitsubishi Trust and Banking, the largest of the trust banks, has been particularly vigorous in exploiting the new opportunities. In the six months to September 1986, pre-tax profits surged 72.8 per cent to a record Y60bn. The bank enjoyed a widening spread on its loan business as a result of the time-lag between the impact of falling interest rates on funding costs and the impact on loan revenue.

It also benefited from the fast growth of the securities-related fee business by managing portfolios in specific money (Tokkin) in trust accounts for corporate investors.

Real estate trusts are a new form of business introduced in 1983, and Tokyo's property boom has made the bank's real estate business highly profitable.

Mitsubishi Trust is also a front-runner in international operations. Last year, the bank was active in building up overseas networks to compete with the major Japanese commercial banks, establishing subsidiaries in Australia, the UK and two in the US. With these latest additions, the overseas network expanded to four branches, one agency, six representative offices and eight subsidiaries.

A division of responsibilities has been established whereby Mitsubishi Trust International, the London-based subsidiary, looks after securities business, while Mitsubishi Trust Banking Corporation USA handles non-banking activities such as leasing and investment advisory and real estate, in addition to securities business.

Last month, the US securities subsidiary was appointed to guarantee the whole of debt issues worth $267m, the largest amount ever issued by a private sector company, to finance the construction of two office buildings by IBM. Another 100 per cent-owned subsidiary in the US was established to expand the bank's commercial banking vehicles.

The bank has shifted its emphasis away from conventional banking business, such as a book-runner of yen syndicated loans, to fee-business, reflecting the preference of prime borrowers for revolving underwriting facilities, note issuance facilities, bonds, and floating rate notes.

In less than a year since its London subsidiary was established, it lead-managed or co-lead managed 24 Eurobond issues (to September 1986), ranking 24th worldwide and fourth in the league of Japanese financial institutions. It has taken the lead among Japanese financial institutions in lead-managing Euroyen bond issues.

The bank's strength in Euroyen bonds derives from its ability to offer swap arrangements to foreign clients. Its enormous pool of long-term funds taken from individuals in loan trusts and pension accounts allows it to match funds more easily than most other banks.

Mitsubishi Trust made a tactical thrust into aircraft financing in 1985 when it set up a 50-50 partnership in a company called Spectrum, in London, which was formed between two individual partners specialising in leasing and aircraft financing and corporate partners such as Mitsubishi and Trust and Mitsubishi Corporations.

The bank moved into aircraft financing on the grounds that the number of aircraft suppliers was limited and prices would not plunge as in, for example, the shipbuilding sector. Also, the US tax reform nullified the competitive edge of the US leveraged leasing system.

In April last year, Mitsubishi Trust and Mitsubishi Corporation Group expanded their exposure to the aircraft financing field by taking a 22 per cent equity participation in the Irish Guinness Peat Aviation (GPA) group, the world's largest aircraft leasing company. Last November, the same group bought a 25 per cent stake in GPA Fokker 100, a newly established joint aircraft leasing venture between GPA group and Fokker to lease 100-seater Fokker aircraft.

The ventures with Spectrum arranged the innovative aircraft financing for British Airways' recent purchase of 16 long-range Boeing 747s. Within the framework of a $2.3bn credit line, set up by the banking syndicate against the collateral of the 16 aircraft to be purchased by BA, the airline company can raise cheap cost funds flexibly through the issuance of commercial papers or the flotation of corporate bonds.

Mitsubishi Trust believes this type of arrangement will be widely used by other airline companies

Yoko Shibata

Can the Tokyo pacesetters in the world financial league stay ahead? FT writers assess their form away from home

Taking a relaxed view of ratios

In London, says CLARE PEARSON, Japanese institutions' position is attributable to economic fundamentals, quite apart from cultural and supervisory factors.

OVER THE last five years, bankers have observed with alarm the rapid rise to prominence in international banking of the Japanese institutions. More recently, they have been faced with another challenge: the equally dogged ascent of the Japanese securities houses in the London-based Eurobond market.

The Japanese houses' onward march was underlined at the end of last year when Nomura, the largest of the "big four" securities houses, shot from eighth to second position in the 1986 book-running league tables.

Both the banking and Eurobond market communities complain that the Japanese are squeezing competitors out of the market with a price-slashing approach to winning business.

The Japanese agree that their success owes something to an attitude towards business that is worlds apart from, say, the "relationship" approach of the British clearing banks.

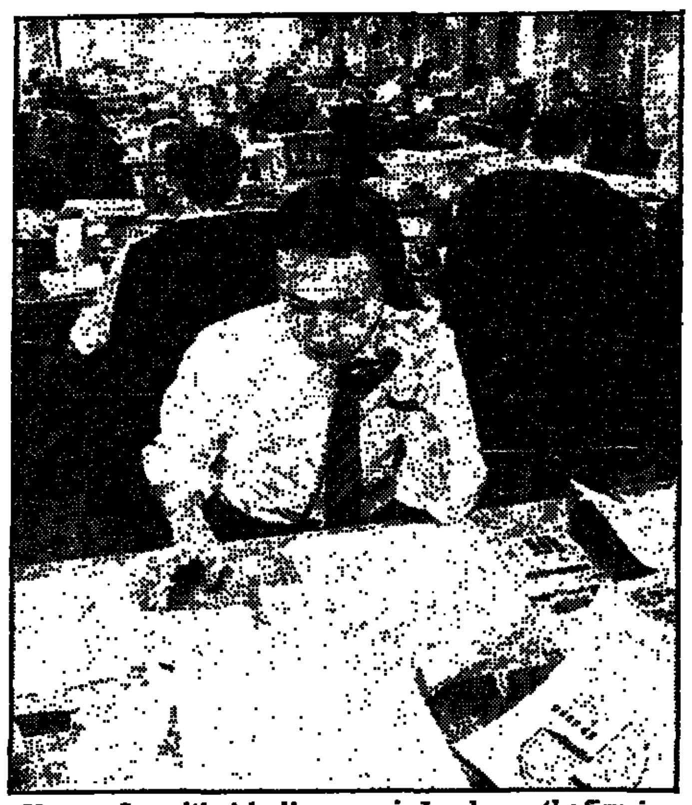
"But we are merely carrying out the competitive policies we are used to at home" says Mr Kunio Seiki, general manager in London of Industrial Bank of Japan.

As far as the banks are concerned, their success is at least in part attributable to the Japanese authorities' more relaxed attitude towards capital ratios. This means that the Japanese can achieve a reasonable return-on-equity on lower margin business than their US and UK competitors.

This advantage had certainly been in the minds of the US and UK authorities when they drew up their proposals for setting common capital requirements for international banks, which were announced earlier this year.

But aside from cultural and supervisory features, the Japanese institutions' present position is also a result of economic fundamentals.

As Japan's trade surplus has expanded, the Japanese have found themselves becoming the world's largest creditors. The decline of the dollar has provided them with an opportunity to expand their Eurodollar business, because their capital bases are in yen.



Nomura Securities' dealing room in London ... the firm is one of those that has stepped up its research into UK companies

According to the latest Bank for International Settlements report, the Japanese banks have nearly doubled their international assets of £1,019.4bn over the last two years.

London has been a key centre for their international operations. According to the Bank of England quarterly bulletin, September 1986, during the ten-year period from the end of 1975 they accounted for more than a third of the total growth in UK banks' international liabilities, raising their market share from 13 to 31 per cent.

Most of their business has been concentrated in the interbank market, where they have expanded their lending to unrelated banks from less than 30 per cent of the cross-border total at the end of 1975 to over 50 per cent ten years later. But during the same period their international lending to non-banks rose at an annual rate of over 25 per cent.

In the Eurobond market, the Japanese have risen to prominence on the back of the increased use of the Euroyen as an international currency. They have also been helped by the cumbersome mechanisms of the domestic bond market which have enabled them to lure Japanese borrowers into the Eurobond market who would otherwise have issued in Japan.

Using these advantages as a springboard, they have extended their influence further—to reach the borrowers who have traditionally been the clients of the US and European houses.

They have been able to price deals more keenly than their US and European counterparts, partly because they have a reliable client base back in Japan and partly, their competitors would say, because they are prepared where necessary to take a loss.

But the Japanese deny the suggestion that they are intent on carving out market share at any price. "Our final aim is to make a profit," says Mr Masao Inagaki, managing director and chief executive officer of Nikko Securities.

While the securities houses have flourished in the Eurobond market, the Japanese banks have had to miss out, because under the provisions of Article 65 they are not allowed to underwrite.

They are, however, able to participate in the Eurobond market through merchant banking subsidiaries. But they are not allowed to lead-manage issues for Japanese companies—a thorn in their sides since co-managements are much less profitable.

The original intention of this limitation was to prevent banks from extending the power they already wielded in the Japanese domestic market through the commissioned bank system, and to save them from making mistakes since they were beginners at the business of underwriting securities.

But the merchant-banking subsidiaries now feel they have outgrown this restriction. "We have now amassed enough strength and experience to act as a lead-manager," says Mr Michio Sakurai, managing director of Fuji International Finance. But there seems little prospect at the moment of alteration in the rules.

The attraction of London to both the banks and the securities houses has been its role as an international financial centre. The banks have stepped up their sterling lending in recent years, but they have shown limited interest in the bulk of domestic business.

This attitude is beginning to change, however. Recently the banks have been looking for business further down the scale than the "blue-chip" British companies, because as one banker said: "The Japanese are alarmed at the decline in profitability on their traditional lending."

Sumitomo and Fuji Bank have both recently set up regional offices in the UK with an eye to getting closer to the medium-sized company.

None has so far shown any interest in individual banking, however, although Sumitomo has set up a mortgage-lending operation.

The securities houses, meanwhile, are becoming keener to promote European equities with their Japanese clients who are showing an increasing desire to diversify their portfolios. Houses like Nomura and Nikko have stepped up their research into UK companies to begin the educational process.

But Mr Inagaki of Nikko Securities says: "We don't foresee competing directly with the UK merchant banks in this area." It is more a case of seeing an opportunity to enlarge the existing market.

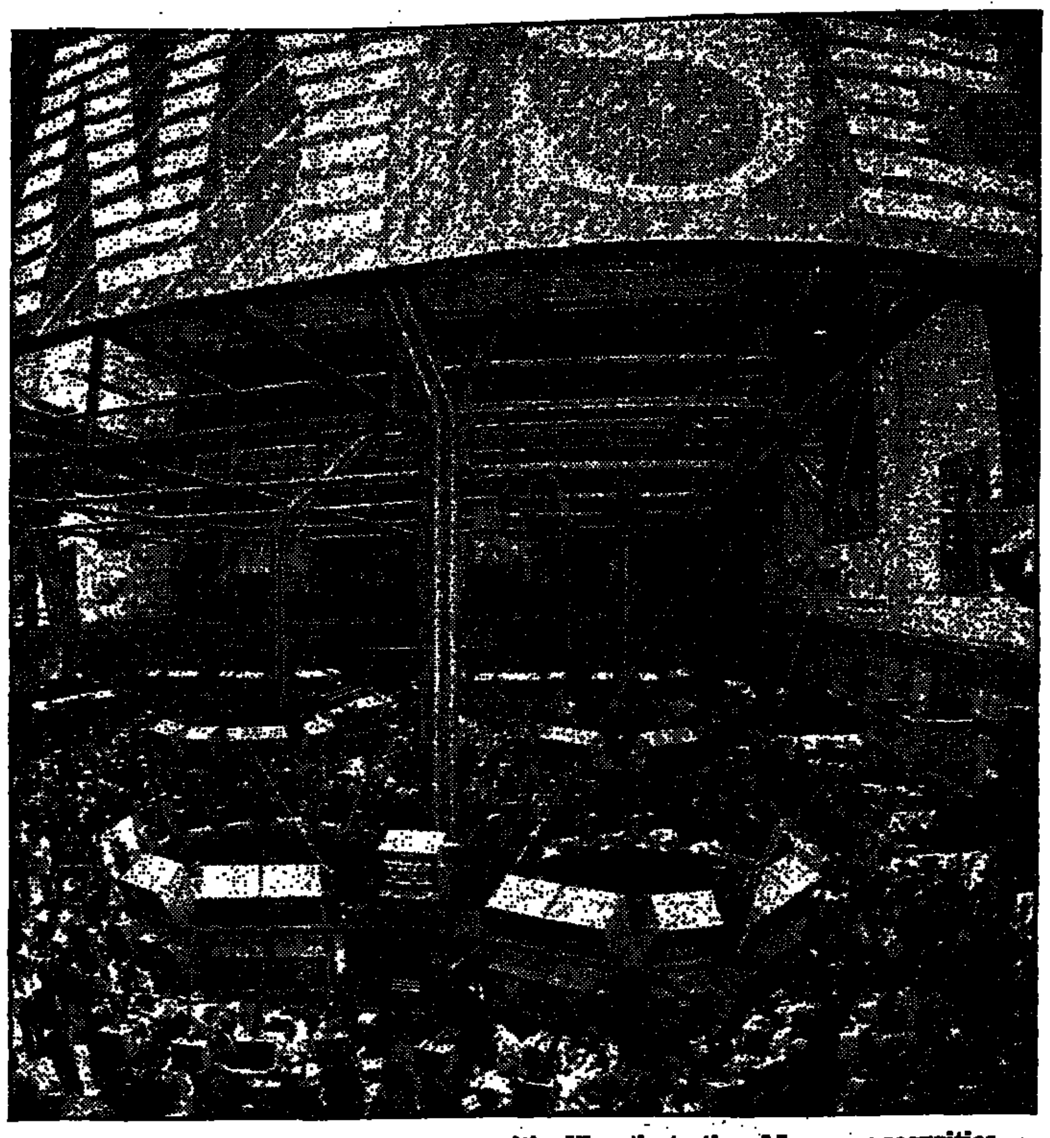
With both Japanese banks and securities houses focusing increasingly on securities in London, it is at first sight paradoxical that Nomura should have taken the step last year of obtaining a licence to take deposits.

But this operation, now three months old, is actually designed primarily to strengthen Nomura's position in the global investment pool, by adding to its funding capacity and allowing it to develop a foreign exchange trading expertise of its own. It has found it can get prime rates.

For the moment, there seems no prospect of a decline in the Japanese role in the London market-place, which they see as crucial for their international operations, and many still have scope to expand activities like foreign exchange.

The securities houses, however, may see less Eurobond business from Japanese borrowers if recent measures of the Ministry of Finance designed to ease issuing procedures in Tokyo take effect.

The cloud on the horizon as far as the banks are concerned is the pressure coming from the US and the UK on the Japanese authorities to tighten capital adequacy provisions. In the event that they were heeded, the banks would be forced to improve their margins on loans.



The New York Stock Exchange ... some critics liken the tactics of Japanese securities firms to those used in the electronics and car markets.

Fed's concession provokes resentment

In New York, says RODERICK ORAM, US firms would welcome the tough competition more if they could have an equal crack at Japanese markets.

JAPANESE financial institutions are building rapidly on their successes in a few chosen fields in the US, to turn themselves into powerful full-line firms that will pose a growing competitive threat to their American counterparts.

A measure of the Japanese securities houses' progress to date came two months ago when three Japanese companies achieved their long-cherished goal of winning the status of primary dealers in US government securities. Membership of the elite group, which now numbers 40 firms, is highly prized since some large institutional investors will deal only with its members.

The decision by the Federal Reserve Bank of New York to confer the status on the Japanese firms unleashed a wave of criticism, which went right to the heart of the issue of competition. Some members of US financial community and some politicians argued that the Fed should have withheld membership until the Japanese made more progress in opening up their domestic financial markets to foreign firms.

US firms, particularly those with capital resources that match the huge Japanese securities firms, welcome the tough competition on the home front if they can have an equal crack at Japanese markets. Tokyo has taken significant steps, but foreign firms there still face impediments.

Primary dealerships were awarded directly to Daiwa Securities America and Nomura Securities International, and indirectly to the Industrial Bank of Japan, when approval was given for a majority-owned subsidiary, J. Henry Schroder Bank and Trust Company, to take over Aubrey G. Lanston, a small conservative firm with close ties with the Federal Reserve.

Government securities have been a natural market for the Japanese firms to concentrate on, since two birds are killed with one stone in a handy recycling exercise: Japan invests the huge piles of dollars generated by its massive trade surpluses in bonds that the US Government must sell to finance its equally impressive federal government budget deficits.

Tokyo's liberalisation in recent years of laws governing Japanese investors' purchase of foreign securities has greatly widened the range of customers for US government bonds. It has not been uncommon for Japanese firms to buy for clients at home half the 30-year bonds offered in a Treasury quarterly auction. The demand from Japanese and other foreign investors has helped keep the bond yields lower than they would otherwise be.

The capability of Japanese firms to trade US bonds from Wall Street has grown dramatically in the past few years through large-scale hiring of American staff. Reflecting growth in this and other areas, Nomura's US staff have rocketed from about 100 in 1983 to more than 560 today. Nikko's local employees have risen in the past 18 months from around 60 to 220, with plans for roughly 400 by the next year.

The wider ambitions are now extending to such fields as corporate bond underwriting, international equities sales, mergers and acquisitions and other investment banking activities. In additon, Nomura, for example, has bought leasing and real estate firms. Some areas, such as foreign exchange dealing, are off limits to securities houses, because of rules governing their parents back in Tokyo.

As with Treasury bonds, interest in these broader areas is prompted in the main by the need to meet Japanese investors' needs. They are beginning to get more adventurous by looking for higher-yielding and more diverse US securities.

But the Japanese clients are only a bridgehead. The firms know that they must attract large numbers of US clients if they are to become a force in the US market as part of their strategy to win a role in the global industry.

Although most Japanese firms have decided to become directly involved in the US, last year saw two hugely significant indirect approaches. Sumitomo Bank invested $500m in Goldman Sachs in return for 12.5 per cent of the annual profits of the prestigious Wall Street securities firm. This deal was carefully scrutinised by US authorities because it brought together a bank and securities firm. US banks are extremely eager to get into the securities business but have been barred for more than 50 years by the Glass-Steagall Act.

In the second link-up, a senior executive of Sumitomo Life joined the board of E. F. Hutton, a large Wall Street brokerage firm with an extensive retail network.

To some critics, the Japanese securities firms' aggressive moves to establish themselves in financial markets bear an uncomfortable resemblance to the tactics used by the Japanese in consumer electronic and car markets. The chief weapon is cut-throat pricing to build market share. This was apparent, for example, in the Treasury bill market last year and when Nomura won the mandate to be sole underwriter on a bond issue for General Electric, the first time a foreign firm had played such a role.

"We're probably like anyone else in that regard," said the vice-chairman of one of the other leading Japanese firms. "If you're going to build volume, you're going to have to be fairly aggressive on pricing. We made a profit overall last year but not in all areas."

Japanese banks, longer established in the US than their securities house colleagues, are just as hard-nosed on pricing. For example, they have come to take the lion's share of letters of credit used as guarantees on municipal bond issues. Typically, they charge 1/10 of 1 per cent of the issue's value, half the rate US banks feel is the minimum they can offer.

Last year also saw Japanese banks move into more innovative and higher risk forms of lending, such as leveraged buy-outs of public companies.

Overall, it is estimated that Japanese banks hold some 8 per cent of bank loans in the US and 13 per cent of loans in California alone, reflecting the natural urge of the banks to be heavily involved in the market closest to home. In fact, five of the largest 11 banks in the state are Japanese-owned.

In another criticism, reminiscent of the barbs hurled in the car and television wars, some US competitors suggest that the Japanese institutions are capable of high quality copies of financial products but are weak on innovation. But this ignores two crucial facts: the Japanese became great innovators in durable goods; and all but the top echelons of Japanese financial firms in the US are staffed by Americans.

But whether those Americans and Japanese colleagues will maximise their potential hinges crucially on questions of corporate culture and management style. One of the leading firms suffered defections of American traders from its government bond business last year, because of considerable friction between them and their locally-based Japanese senior managers.

"The integration of American and Japanese skills is a pressing problem for the Japanese," said a senior US investment banker. The stakes are huge, because they must establish a style in which managers and staff can function effectively in global markets. With the internationalisation of the securities industry, fewer and fewer investment products or services could be seen narrowly in the context of a domestic market, even one as big as the US, he added.

Thus, the next few years will be critical for the Japanese firms in the US as they strive to become full-line financial institutions.